

FOUNDATION COURSE
MOCK TEST PAPER

PAPER – 3: BUSINESS MATHEMATICS, LOGICAL REASONING AND STATISTICS

Time Allowed 3 Hours

Maximum Marks: 100

QUESTIONS

PART A: BUSINESS MATHEMATICS: 40 MARKS

1. P, Q and R three cities. The ratio of average temperature between P and Q is 11: 12 and that between P and R is 9:8. The ratio between the average temperature Q and R
(a) 22.27
(b) 27.22
(c) 32: 33
(d) none
2. The third proportional between (a^2-b^2) and $(a+b)^2$ is :
(a) $\frac{a+b}{a-b}$
(b) $\frac{a-b}{a+b}$
(c) $\frac{(a-b)^2}{a+b}$
(d) $\frac{(a+b)^2}{a-b}$
3. If 8th term of an AP is 15, the Sum of the 15 its term is
(a) 15
(b) 0
(c) 225
(d) 225/2
4. For what values of x, the number $-\frac{2}{7}$, x, $-\frac{7}{2}$ are in G.P.?
(a) ± 1
(b) ± 3
(c) ± 2
(d) none of these
5. For what value of x; the sequence x+1, 3x, 4x+2 are in AP?
(a) 3
(b) 2
(c) 4
(d) 5

6. If $a^{1/x} = b^{1/y} = c^{1/z}$ and a, b, c are in GP then x, y, z are in
- AP
 - GP
 - HP
 - AGP
7. The derivative of $e^x \log x$
- $\frac{e^x}{x}(1 + x \log x)$
 - $\frac{e^x}{x}(1 + \log x)$
 - $(1 + \log x)$
8. If $y = \sqrt{\frac{1-x}{1+x}}$ then $(1-x^2) \frac{dy}{dx} =$
- y
 - $-x$
 - $-y$
 - 0
9. Find the gradient of the curve $y = 3x^2 - 5x + 4$ at the point $(1, 2)$
- 1
 - -1
 - 0
 - 2
10. The equation of the curve in the form $y = f(x)$ if the curve passes through the point $(1, 0)$ and $f'(x) = 2x - 1$ is
- $y = x^2 - x$
 - $x = y^2 - y$
 - $y = x^2$
 - none of these
11. $\int \frac{1}{x \log x} dx = ?$
- $\log|x| + c$
 - $\log|\log x| + c$
 - $(\log x)^2 + c$
 - none of these
12. $\int_1^2 \frac{2x}{1+x^2} dx$ is equal to
- $\log_e(5/2)$
 - $\log_e 5 - \log_e 2 + k$

- (c) $\log_e(2/5)$
(d) none of these
13. Find $f \circ g$ for the functions $f(x) = x^8$, $g(x) = 2x^2+1$
(a) $x^8(2x^2+1)$
(b) x^8
(c) $2x^2+1$
(d) $(2x^2+1)^8$
14. The number of proper subsets of the set $\{3, 4, 5, 6, 7\}$ is
(a) 32
(b) 31
(c) 30
(d) 25
15. On the sets of lines in a plane the Relation "is perpendicular to" is
(a) Reflexive
(b) Symmetric
(c) Transitive
(d) none of these
16. In how many ways 3 prizes out of 5 can be distributed amongst 3 brothers equally
(a) 10
(b) 45
(c) 60
(d) 120
17. There 12 questions to be answered to be Yes or No. How Many ways this can be answered
(a) 1021
(b) 2048
(c) 4096
(d) None of the above
18. ${}^{15}C_{3r} = {}^{15}C_{r+3}$, then r is equal to
(a) 2
(b) 3
(c) 4
(d) 5
19. A polygon has 44 diagonals then the number of sides are
(a) 6
(b) 7
(c) 8
(d) 9
20. Number ways of painting of a face of a cube by 6 colours is
(a) 36

- (b) 6
 (c) 24
 (d) 20
21. How many Six-digit telephone numbers can be formed by using 10 distinct digits
 (a) 10^8
 (b) 6^{10}
 (c) $10C_9$
 (d) $10P_6$
22. $nC_1+nC_2+nC_3+\dots\dots\dots=$
 (a) 2^{n-1}
 (b) 2^n
 (c) 2^{n+1}
 (d) none of these
23. The value of $\log_{0.1} 0.001 =$
 (a) 3
 (b) 2
 (c) 4
 (d) $1/3$
24. if $\log_4 x = -3/2$. Then x is
 (a) $1/8$
 (b) $1/4$
 (c) $1/2$
 (d) $1/3$
25. A number consists of two digits. The digits in tens place is 3 times the digit in the unit's place. If 54 is subtracted from the digits are reversed. The number is
 (a) 39
 (b) 92
 (c) 93
 (d) 94
26. The equation $x^2 -(P+4) x + 2P+5 = 0$ has equal roots
 The value of p is
 (a) 2
 (b) -2
 (c) ± 2
 (d) 3
- 27.

x	5	6	7	8
y	11	13	15	17

In the above table corresponding values of two variable x and y have been given. Which of the following equations establishes the relationship between the two variables?

- (a) $y=3x+2$
 - (b) $y=2x-1$
 - (c) $y=2x+1$
 - (d) $y=3x+1$
28. A manufacturer produces two items A and B. He has ₹10,000 to invest and a space to store 100 its ms. A table costs him ₹400 and a chair ₹100. Express this in the form of linear inequalities.
- (a) $x + y \leq 100, 4x + y \leq 100, x \geq 0, y \geq 0$
 - (b) $x + y \leq 1000, 2x + 5y < 1000, x \geq 0, y \geq 0$
 - (c) $x + y > 100, 4x + y \geq 100, x \geq 0, y \geq 0$
 - (d) none of these
29. Two matrices A and B are multiplied to get AB if
- (a) both are rectangular
 - (b) both have same order
 - (c) no of columns of A is equal to rows of B
 - (d) no of rows of A is equal to no of columns of B
30. If $|A| = 0$, then A is
- (a) zero matrix
 - (b) singular matrix
 - (c) non-singular matrix
 - (d) 0
31. If the order of matrix A is $m \times p$. And the order of B is $p \times n$. Then the order of matrix AB is?
- (a) $m \times n$
 - (b) $n \times m$
 - (c) $n \times p$
 - (d) $m \times p$
32. if $A = \begin{pmatrix} 2i & 3i \\ 2i & -i \end{pmatrix}$ ($i^2 = -1$) then $|A| = ?$
- (a) 2
 - (b) 8
 - (c) 4
 - (d) 5
33. Future value of Ordinary Annuity
- (a) $A(n, i) = A \left[\frac{(1+i)^n - 1}{i} \right]$

$$(b) \quad A(n, i) = A \left[\frac{(1+i)^n + 1}{i} \right]$$

$$(c) \quad A(n, i) = A \left[\frac{1 - (1+i)^n}{i} \right]$$

$$(d) \quad A(n, i) = A \left[\frac{(1+i)^n - 1}{i(1+i)^n} \right]$$

34. Nominal rate of Interest 9.9% p.a. If Interest is compounded monthly. What will be the effective rate of Interest? (Given $\left(\frac{4033}{4000}\right)^{12} = 1.1036$)
- (a) 10.36 %
(b) 9.36%
(c) 11.36%
(d) 9.9 %
35. A machine worth of Rs. 4,90,740 is depreciated at 15% on its opening value each year. When its value reduce to Rs. 2,00,000
- (a) 5 years 6 months
(b) 5 years 7 months
(c) 5 years 5 months
(d) none
36. A sinking fund is created redeeming debentures worth Rs. 5,00,000 at the end of 25 years. How much provision need to be made out of profits each year provided sinking fund investments can earn at 4 % per annum
- (a) 12,006
(b) 12,040
(c) 12039
(d) 12035
37. Nominal Rate of Return =
- (a) Real Rate of Return – Inflation
(b) Real Rate of Return + Inflation
(c) Real Rate of Return / Inflation
(d) Real Rate of Return × Inflation
38. Net Present value ≥ 0 , then
- (a) Accept the Proposal
(b) Reject the proposal
(c) Not Feasible
(d) None of the above

39. A sum of Money doubles itself at compound interest in 10years. In how many years will it become eight times
- (a) 10
 - (b) 30
 - (c) 40
 - (d) 35
40. The time in which a sum of money will be doubled at 6% compound interest compounded interest compounded annually approximately.
- (a) 10 years
 - (b) 12 years
 - (c) 13 years
 - (d) 14 years

PART B: LOGICAL REASONING: 20 MARKS

41. 18, 24, 21, 27, ?, 30, 27
- (a) 33
 - (b) 30
 - (c) 24
 - (d) 21
42. 5, 7, 11, ?, 35, 67
- (a) 23
 - (b) 28
 - (c) 30
 - (d) 19
43. If GARDEN is coded as 325764 and WATER as 92165, how can we code the word WARDEN in the same way?
- (a) 925764
 - (b) 295764
 - (c) 952764
 - (d) 957264
44. If F=6, MAT=34, then how much is CAR?
- (a) 21
 - (b) 22
 - (c) 25
 - (d) 28
45. 1, 4, 9, 16, 20, 36, 49
- (a) 1
 - (b) 9
 - (c) 20
 - (d) 36

46. 16, 25, 36, 72, 144, 196, 225
- (a) 36
 - (b) 72
 - (c) 196
 - (d) 225
47. Mohan starts from point A and walks 1 km towards south, turns left and walks 1 km. Then he turns left again and walks 1 km. Now he is facing
- (a) East
 - (b) West
 - (c) North
 - (d) South-West
48. Roopa starts from a point and walks 15 metre towards west, turns left and walks 12 metre, turns right again and walks. What is the direction she is now facing?
- (a) South
 - (b) West
 - (c) East
 - (d) North
49. A car travelling from south covers a distance of 8 kms, then turns right and runs another 9 kms and again turns to the right and was stopped. Which direction does it face now?
- (a) South
 - (b) North
 - (c) West
 - (d) East
50. There are five houses P, Q, R, S and T. P is right of Q and T is left of R and right of P. Q is right of S. Which house is in the middle?
- (a) P
 - (b) Q
 - (c) T
 - (d) R
51. Six friends A, B, C, D, E and F are sitting in a row facing towards North, C is sitting between A and E, D is not at the end, B is sitting at immediate right of E, F is not at the right end, but D is sitting at 3rd left of E. Which of the following is sitting to the left of D?
- (a) A
 - (b) F
 - (c) E
 - (d) C
52. Six girls are standing in such a way that they form a circle, facing the centre. Subbu is to the left of Pappu, Revathi is between Subbu and Nisha, Aruna is between Pappu and Keerthna. Who is to the right of Nisha?
- (a) Ravathi
 - (b) Aruna

- (c) Subbu
(d) Keerthana
53. A is B's brother. C is D's father. E is B's mother. A and D are brothers. How is E related to C?
(a) Sister
(b) Sister-in-law
(c) Niece
(d) Wife
54. A is B's brother, C is A's mother, D is C's father, E is B's son, How is B related to D?
(a) Son
(b) Granddaughter
(c) Grandfather
(d) Great Grandfather
55. A is the mother of D and sister of B. B has a daughter C who is married to F. G is the husband of A. How is G related to D?
(a) Uncle
(b) Husband
(c) Son
(d) Father
56. P and Q are brothers. R and S are sister. P's son is S's brother. How is Q related to R?
(a) Uncle
(b) Brother
(c) Father
(d) Grandfather
57. Statements: Some Cats are Rats. All bats are tables. All Rats are Bats. Conclusion:
I. Some Cats are bats
II. All bats are rats
III. All tables are cats
IV. All bats are cats
(a) Only I & II follow
(b) Only II follows
(c) Only I & IV follow
(d) None of these
58. Statements: Some ships are boats. All boats are submarines. Some submarines are yatches. Conclusion:
I. Some yatches are boats.
II. Some submarines are boats.
III. Some submarines are ships.
IV. Some yatches are ships
(a) All follow

- (b) Only II and III follow
 (c) Only III follows
 (d) Only IV follows
59. Statements: All Carrots are birds. Some telephones are Carrots. All bedsheets are telephone.
 Conclusion:
 I. All bedsheets are birds
 II. Some bedsheets are birds
 III. Some birds are telephones
 IV. All telephones are birds
 (a) Only I follows
 (b) Only II follows
 (c) Only I and III follow
 (d) Only III follows
60. Statements: Most CPUs are keyboards. No keyboard is a Mouse. All Mouses are CPU.
 Conclusion:
 I. Some keyboards are CPU
 II. All CPU's are Mouse
 III. No Mouse is a keyboard
 IV. Some Mouse are keyboard
 (a) Only I follows
 (b) Only II and III follow
 (c) Only I and III follow
 (d) Only II follows

PART: C STATISTICS: 40 MARKS

61. The _____ is satisfied when $P_{ab} \times P_{bc} \times P_{ca} = 1$
 (a) Time reversal test
 (b) Factor reversal test
 (c) Circular Test
 (d) none of these
62. The index number of prices at a place in 2008 is 355 with 2003 as base. This means
 (a) There has been on the average a 255% increase in prices.
 (b) There has been on the average a 355% increase in price.
 (c) There has been on the average a 250% increase in price.
 (d) None of these.
63. The number of tests of Adequacy
 (a) 2
 (b) 3
 (c) 4
 (d) 5

64. If two events A and B are independent, the probability that both will occur is given by
- $P(A) \times P(B)$
 - $P(A) + P(B)$
 - $P(A) + P(B) - P(A \cup B)$
 - $P(A) + P(B) - P(A \cap B)$
65. If p: q is the odds in favor of an event, then the probability of that event is
- p/q
 - $\frac{q}{p+q}$
 - $\frac{p}{p+q}$
 - none of these
66. If $P(A) = 4/9$; then the odd against the event 'A' is
- 4:9
 - 4:5
 - 5:4
 - 4:14
67. If two letters are taken at random from the word HOME, what is the Probability that none of the letters would be vowels?
- 1/6
 - 1/2
 - 1/3
 - 1/4
68. Equations of two lines of regression are $4x+3y+7 = 0$ and $3x+ 4y + 8 = 0$, the mean of x and y are
- 5/7 and 6/7
 - 4/7 and -11/7
 - 2 and 4
 - None of these
69. Correlation Co-efficient is _____ of the units of measurements
- Independent
 - Dependent
 - Both
 - none of these
70. If for two variable x and y, the covariance, variance of x and variance of y are 40, 16 and 256 respectively, what is the value of the correlation coefficient?
- 0.01
 - 0.625
 - 0.4
 - 0.5

71. Statistics is concerned with
- (a) Qualitative information
 - (b) Quantitative information
 - (c) (a) or (b)
 - (d) Both (a) and (b).
72. The standard deviation of 25, 32, 43, 53, 62, 59, 48, 31, 24, 33 is
- (a) 13.23
 - (b) 12.33
 - (c) 11.33
 - (d) none of these
73. The quartile deviation of a normal distribution with mean 10 and standard deviation 4 is
- (a) 0.675.
 - (b) 67.50.
 - (c) 2.70
 - (d) 3.20.
74. If the range of x is 2, what would be the range of $-3x + 50$?
- (a) 2
 - (b) 6
 - (c) -6
 - (d) 44
75. If the quartile deviation of a normal curve is 4.05, then its mean deviation is
- (a) 5.26
 - (b) 6.24
 - (c) 4.24
 - (d) 4.80
76. The mean of first 3 terms is 14 and the mean of next 2 terms is 18. The mean of 5 numbers is
- (a) 14.5
 - (b) 15
 - (c) 14
 - (d) 15.6
77. The Standard deviation is independent of change of
- (a) Origin
 - (b) Scale
 - (c) Both
 - (d) none
78. If two variables are uncorrelated then regression lines are
- (a) Parallel
 - (b) Perpendicular
 - (c) Coincident

- (d) Inclined at 45°
79. When 'p' = 0.5, the
- Asymmetrical.
 - Symmetrical.
 - Both of above.
 - None of above
80. In a normal distribution skewness is ____
- 0
 - >3
 - <3
 - <1
81. If mean and standard deviation of a binomial distribution is 10 and 4 respectively; q will be ____
- 0.4
 - 0.44
 - 40
 - 0.16
82. Which one is not a condition of Poisson model
- the probability of having failures in a small time interval is constant
 - the probability of having success more than one in a small time interval is very small
 - the probability of having success in this time interval is independent of time 't' as well as earlier success
 - the probability of having success in a small time interval (t, t+td) is Kt for a positive constant k.
83. In _____ distribution, mean = variance.
- Normal
 - Binomial
 - Poisson
 - none of these
84. The points of inflexion of the normal curve $f(t) = \frac{1}{4\sqrt{2\pi}} e^{-\frac{(t-10)^2}{32}}$ are
- 6, 14
 - 5, 15
 - 4, 16
 - none of these
85. The mean of Binomial Distribution is 4 and the Standard Deviation $\sqrt{3}$. what is the value of P.
- $\frac{1}{3}$
 - $\frac{1}{4}$

(c) $\frac{1}{5}$

(d) $\frac{3}{4}$

86. 'Stub' of a table is the _____ part of the table describing the _____.

- (a) Left, Columns
- (b) Right, Columns
- (c) Right, Rows
- (d) Left, Rows

87. The pair of averages whose value can be determined graphically?

- (a) Mean and Median
- (b) Mode and Mean
- (c) Mode and Median
- (d) None of these

88. Find the Expected value of the following distribution

x	-20	-10	30	75	80
P(x)	$\frac{3}{20}$	$\frac{1}{5}$	$\frac{1}{2}$	$\frac{1}{10}$	$\frac{1}{20}$

- (a) 20.5
- (b) 21.5
- (c) 22.5
- (d) 24.5

89. Secular trend can be measured by:

- (a) Two methods
- (b) Three methods
- (c) Four methods
- (d) Five methods

90. Increase in the number of patients in the hospital due to heat stroke is:

- (a) Secular trend
- (b) Irregular variation
- (c) Seasonal variation
- (d) Cyclical variation

91. The multiplicative time series model is:

- (a) $Y = T + S + C + I$
- (b) $Y = TSCI$
- (c) $Y = a + bx$
- (d) $y = a + bx + Cx^2$

92. The difference between the upper and lower limit of a class is called

- (a) Class Interval
- (b) Mid Value

- (c) Class Boundary
(d) Frequency
93. A man travels from Delhi to Agra at an average speed of 30km per hour and back at an average speed of 60 km per hour. What's the average Speed.
- (a) 48 Km/ hr
(b) 40 km/hr
(c) 45 km/hr
(d) 35 km/hr
94. If the mean of frequency distribution is 100 and coefficient of variation is 45% then standard deviation is.
- (a) 45
(b) 0.45
(c) 4.5
(d) 450
95. if the mean and SD of X are a and b respectively, then the S.D of $\frac{x-a}{b}$ is
- (a) a/b
(b) -1
(c) 1
(d) ab
96. Standard Error of Correlation coefficient
- (a) $\frac{1-r^2}{\sqrt{N}}$
(b) $\frac{1+r^2}{\sqrt{N}}$
(c) $\frac{1+r^2}{N}$
(d) $\frac{1-r}{N}$
97. Probable Error can be obtained using Correlation coefficient as
- (a) $0.675 \times \frac{1-r^2}{\sqrt{N}}$
(b) $\frac{2}{3} \times \frac{1+r^2}{\sqrt{N}}$
(c) $\frac{1+r^2}{N}$

(d) $\frac{1-r^2}{r^2}$

98. What is exclusive Series

- (a) In which both upper and lower limit are not included in class frequency
- (b) In which lower limit is not included class frequency
- (c) In which upper limit is not included in class frequency
- (d) None of the above

99. If the arithmetic mean between two numbers is 64 and the Geometric Mean between them is 16 . The Harmonic mean between them is ____

- (a) 64
- (b) 4
- (c) 16
- (d) 40

100. When the mean is 3.57 and mode is 2.13, then the value of median is ____

- (a) 3.09
- (b) 5.01
- (c) 5.01
- (d) none of these.

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PAPER – 3: BUSINESS MATHEMATICS, LOGICAL REASONING AND STATISTICS

ANSWERS

PART A: BUSINESS MATHEMATICS

1	(b)	2	(d)	3	(c)	4	(a)	5	(a)
6	(a)	7	(a)	8	(c)	9	(a)	10	(a)
11	(b)	12	(b)	13	(d)	14	(b)	15	(b)
16	(c)	17	(c)	18	(b)	19	(d)	20	(b)
21	(d)	22	(a)	23	(a)	24	(a)	25	(c)
26	(c)	27	(c)	28	(a)	29	(c)	30	(b)
31	(a)	32	(b)	33	(a)	34	(a)	35	(a)
36	(a)	37	(b)	38	(a)	39	(b)	40	(b)

PART B: LOGICAL REASONING

41	(c)	42	(d)	43	(a)	44	(b)	45	(c)
46	(b)	47	(c)	48	(b)	49	(a)	50	(a)
51	(b)	52	(a)	53	(d)	54	(b)	55	(d)
56	(a)	57	(d)	58	(b)	59	(d)	60	(c)

PART C: STATISTICS

61	(c)	62	(a)	63	(c)	64	(a)	65	(c)
66	(c)	67	(a)	68	(b)	69	(a)	70	(b)
71	(d)	72	(a)	73	(c)	74	(b)	75	(d)
76	(d)	77	(a)	78	(b)	79	(b)	80	(a)
81	(a)	82	(a)	83	(a)	84	(a)	85	(b)
86	(d)	87	(c)	88	(b)	89	(c)	90	(b)
91	(b)	92	(a)	93	(b)	94	(a)	95	(c)
96	(a)	97	(a)	98	(c)	99	(b)	100	(a)

MOCK TEST PAPER
FOUNDATION COURSE
PAPER 2A: BUSINESS LAWS
ANSWERS

1. (a) According to Section 11 of the Indian Contract Act, 1872, every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind and is not disqualified from contracting by any law to which he is subject.

A person who has completed the age of 18 years is a major and otherwise he will be treated as minor. Thus, Ishaan who is a minor is incompetent to contract and any agreement with him is void [*Mohori Bibi Vs Dharmo Das Ghose 1903*].

Section 68 of the Indian Contract Act, 1872 however, prescribes the liability of a minor for the supply of the things which are the necessaries of life to him. It says that though minor is not personally liable to pay the price of necessaries supplied to him or money lent for the purpose, the supplier or lender will be entitled to claim the money/price of goods or services which are necessaries suited to his condition of life provided that the minor has a property. The liability of minor is only to the extent of the minor's property. Thus, according to the above provision, Vishal will be entitled to recover the amount of loan given to Ishaan for payment of the college fees from the property of the minor.

- (b) The House of Lords in *Salomon Vs. Salomon & Co. Ltd.* laid down that a company is a person distinct and separate from its members, and therefore, has an independent separate legal existence from its members who have constituted the company. But under certain circumstances the separate entity of the company may be ignored by the courts. When that happens, the courts ignore the corporate entity of the company and look behind the corporate façade and hold the persons in control of the management of its affairs liable for the acts of the company. Where a company is incorporated and formed by certain persons only for the purpose of evading taxes, the courts have discretion to disregard the corporate entity and tax the income in the hands of the appropriate assessee.

(1) The problem asked in the question is based upon the aforesaid facts. The three companies were formed by the assessee purely and simply as a means of avoiding tax and the companies were nothing more than the façade of the assessee himself. Therefore, the whole idea of Mr. Krishna was simply to split his income into three parts with a view to evade tax. No other business was done by the company.

(2) The legal personality of the three private companies may be disregarded because the companies were formed only to avoid tax liability. It carried no other business, but was created simply as a legal entity to ostensibly receive the dividend and interest and to hand them over to the assessee as pretended loans.

- (c) The differences between the sale and agreement to sell is as follows:

Basis of difference	Sale	Agreement to sell
Transfer of property	The property in the goods passes to the buyer immediately.	Property in the goods passes to the buyer on future date or on fulfilment of some condition.

Nature of contract	It is an executed contract. i.e. contract for which consideration has been paid.	It is an executory contract. i.e. contract for which consideration is to be paid at a future date.
Remedies for breach	The seller can sue the buyer for the price of the goods because of the passing of the property therein to the buyer.	The aggrieved party can sue for damages only and not for the price, unless the price was payable at a stated date.
Liability of parties	A subsequent loss or destruction of the goods is the liability of the buyer.	Such loss or destruction is the liability of the seller.
Burden of risk	Risk of loss is that of buyer since risk follows ownership.	Risk of loss is that of seller.
Nature of rights	Creates Jus in rem	Creates Jus in personam
Right of resale	The seller cannot resell the goods.	The seller may sell the goods since ownership is with the seller.

2. (a) Discharge of a Contract:

A Contract may be discharged either by an act of parties or by an operation of law which may be enumerated as follows:

- (1) *Discharge by performance* which may be actual performance or attempted performance. Actual performance is said to have taken place, when each of the parties has done what he had agreed to do under the agreement. When the promisor offers to perform his obligation, but the promisee refuses to accept the performance, it amounts to attempted performance or tender.
- (2) *Discharge by mutual agreement*: Section 62 of the Indian Contract Act, 1872 provides that if the parties to a contract agree to substitute a new contract for it or to refund or remit or alter it, the original contract need not to be performed. Novation, Rescission, Alteration and Remission are also the same ground of this nature.
- (3) *Discharge by impossibility of performance*: The impossibility may exist from its initiation. Alternatively, it may be supervening impossibility which may take place owing to (a) unforeseen change in law (b) The destruction of subject matter (c) The non-existence or non-occurrence of particular state of things (d) the declaration of war (Section 56).
- (4) *Discharge by lapse of time*: A contract should be performed within a specific period as prescribed in the Law of Limitation Act., 1963. If it is not performed the party is deprived of remedy at law.
- (5) *Discharge by operation of law*: It may occur by death of the promisor, by insolvency etc.
- (6) *Discharge by breach of contract*: Breach of contract may be actual breach of contract or anticipatory breach of contract. If one party defaults in performing his part of the contract on the due date, he is said to have committed breach thereof. When on the other hand, a person repudiates a contract before the stipulated time for its performance has arrived, he is deemed to have committed anticipatory breach. If one of the parties to a contract breaks the promise the party injured thereby, has not only a right of action for damages but he is also discharged from performing his part of the contract (Section 64).
- (7) A promisee may dispense with or remit, wholly or in part, the performance of the promise made to him, or may extend the time for such performance or may accept instead of it any satisfaction he thinks fit. In other words, a contract may be discharged by remission. (Section 63).

(8) When a promisee neglects or refuses to afford the promisor reasonable facilities for the performance of the promise, the promisor is excused by such neglect or refusal (Section 67).

(b) **Meaning:** A LLP is a new form of legal business entity with limited liability. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership. The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the partners will be limited.

Steps to incorporate LLP:

(a) Name reservation

- The first step to incorporate Limited Liability Partnership (LLP) is reservation of name of LLP.
- Applicant has to file e- Form 1, for ascertaining availability and reservation of the name of a LLP business.

(b) Incorporate LLP

- After reserving a name, user has to file e- Form 2 for incorporating a new Limited Liability Partnership (LLP).
- e-Form 2 contains the details of LLP proposed to be incorporated, partners'/ designated partners' details and consent of the partners/ designated partners to act as partners/ designated partners.

(c) LLP Agreement

- Execution of LLP Agreement is mandatory as per Section 23 of the Act.
- LLP Agreement is required to be filed with the registrar in e- Form 3 within 30 days of incorporation of LLP.

3. (a) Section 29 of the Indian Partnership Act, 1932 provides that a share in a partnership is transferable like any other property, but as the partnership relationship is based on mutual confidence, the assignee of a partner's interest by sale, mortgage or otherwise cannot enjoy the same rights and privileges as the original partner.

The rights of such a transferee are as follows:

(1) During the continuance of partnership, such transferee is not entitled

- (a) to interfere with the conduct of the business,
- (b) to require accounts, or
- (c) to inspect books of the firm.

He is only entitled to receive the share of the profits of the transferring partner and he is bound to accept the profits as agreed to by the partners, i.e., he cannot challenge the accounts.

(2) On the dissolution of the firm or on the retirement of the transferring partner, the transferee will be entitled, against the remaining partners:

- (a) to receive the share of the assets of the firm to which the transferring partner was entitled, and
- (b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

By virtue of Section 31, no person can be introduced as a partner in a firm without the consent of all the partners. A partner cannot by transferring his own interest, make anybody else a partner in his place, unless the other partners agree to accept that person as a partner. At the

same time, a partner is not debarred from transferring his interest. A partner's interest in the partnership can be regarded as an existing interest and tangible property which can be assigned.

- (b) **BREACH OF CONTRACT- DAMAGES:** Section 73 of the Indian Contract Act, 1872 lays down that when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract to be likely to result from the breach of it.

The leading case on this point is "*Hadley v. Baxendale*" in which it was decided by the Court that the special circumstances under which the contract was actually made were communicated by the plaintiff to the defendant, and thus known to both the parties to the contract, the damages resulting from the breach of such contract which they would reasonably contemplate, would be the amount of injury which would ordinarily follow from the breach of contract under these special circumstances so known and communicated.

The problem asked in this question is based on the provisions of Section 73 of the Indian Contract Act, 1872. In the instant case 'X' had intimated to 'Z' that he was purchasing water bottles from him for the purpose of performing his contract with 'Y'. Thus, 'Z' had the knowledge of the special circumstances. Therefore, 'X' is entitled to claim from 'Z' ₹ 500/- at the rate of 0.50 paise i.e. 1000 water bottles x 0.50 paise (difference between the procuring price of water bottles and contracted selling price to 'Y') being the amount of profit 'X' would have made by the performance of his contract with 'Y'.

If 'X' had not informed 'Z' of 'Y's contract, then the amount of damages would have been the difference between the contract price and the market price on the day of default. In other words, the amount of damages would be ₹ 750/- (i.e. 1000 water bottles x 0.75 paise).

4. (a) The following are implied conditions in a contract of sale by sample in accordance with Section 17 of the Sale of Goods Act, 1930;
- that the bulk shall correspond with the sample in quality;
 - that the buyer shall have a reasonable opportunity of comparing the bulk with the sample.
 - that the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on a reasonable examination of the sample.

Implied Warrants:

- Warranty as to undisturbed possession [Section 14(b)]:* An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.
 - Warranty as to non-existence of encumbrances [Section 14(c)]:* An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.
 - Warranty as to quality or fitness by usage of trade [Section 16(3)].* An implied warranty as to quality or fitness for a particular purpose may be annexed by the usage of trade.
 - Warranty to disclose dangerous nature of goods:* Where a person sells goods, knowing that the goods are inherently dangerous or they are likely to be dangerous to the buyer and that the buyer is ignorant of the danger, he must warn the buyer of the probable danger, otherwise he will be liable in damages.
- (b) The problem in the question is based on the 'Implied Authority' of a partner provided in Section 19 of the Indian Partnership Act, 1932. The section provides that subject to the provisions of Section 22 of the Act, the act of a partner, which is done to carry on, in the usual way, business of the kind

carried on by the firm, binds the firm. The authority of a partner to bind the firm conferred by this section is called his 'Implied Authority' [Sub-Section (1) of section 19]. Furthermore, every partner is in contemplation of law the general and accredited agent of the partnership and may consequently bind all the other partners by his acts in all matters which are within the scope and object of the partnership. Hence, if the partnership is of a general commercial nature, he may buy goods on account of the partnership.

Considering the above provisions and explanation, the questions as asked in the problem may be answered as under:

- (i) The firm's contention is not tenable, for the reason that the partner, in the usual course of the business on behalf of the firm has an implied authority to bind the firm. The firm is, therefore, liable for the price of the goods.
- (ii) In the second case also, the answer would be the same as above, i.e. the implied authority of the partner binds the firm.

In both the cases, however, the firm ABC can take action against A, the partner but it has to pay the price of stationery to the supplier D.

5. (a) Section 26 of the Sale of Goods Act, 1930 provides that unless otherwise agreed, the goods remain at the seller's risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at buyer's risk whether delivery has been made or not. Further Section 18 read with Section 23 of the Act provides that in a contract for the sale of unascertained goods, no property in the goods is transferred to the buyer, unless and until the goods are ascertained and where there is contract for the sale of unascertained or future goods by description, and goods of that description and in a deliverable state are unconditionally appropriated to the contract, either by the seller with the assent of the buyer or by the buyer with the assent of the seller, the property in the goods thereupon passes to the buyer. Such assent may be express or implied. Applying the aforesaid law to the facts of the case in hand, it is clear that Mr. Samuel has the right to select the good out of the bulk and he has sent his men for same purpose.

Hence the problem can be answered based on the following two assumptions and the answer will vary accordingly.

- (a) **Where the bales have been selected with the consent of the buyer's representatives:**

In this case, the property in the 60 bales has been transferred to the buyer and goods have been appropriated to the contract. Thus, loss arising due to fire in case of 60 bales would be borne by Mr. Samuel. As regards 40 bales, the loss would be borne by Mr. Varun, since the goods have not been identified and appropriated.

- (b) **Where the bales have not been selected with the consent of buyer's representatives.**

In this case the property in the goods has not been transferred at all and hence the loss of 100 bales would be borne by Mr. Varun completely.

- (b) **Meaning of Guarantee Company:** Section 2(21) of the Companies Act, 2013 defines a Company Limited by Guarantee as a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. Thus, the liability of the members of a guarantee company is limited to a stipulated amount in terms of individual guarantees given by members and mentioned in the memorandum. The members cannot be called upon to contribute more than such stipulated amount for which each member has given a guarantee in the memorandum of association.

Similarities and dis-similarities between the Guarantee Company and the Company limited by shares: The common features between a "guarantee company" and the "company limited

share” are legal entity and limited liability. In case of a company limited by shares, the liability of its members is limited to the amount remaining unpaid on the shares held by them. Both these type of companies have to state this fact in their memorandum that the members’ liability is limited.

However, the dissimilarities between a ‘guarantee company’ and ‘company limited by shares’ is that in the former case the members will be called upon to discharge their liability only after commencement of the winding up of the company and only to the extent of amounts guaranteed by them respectively; whereas in the case of a company limited by shares, the members may be called upon to discharge their liability at any time, either during the life of the company or during the course of its winding up.

6. (a) **No consideration, no contract:** Every agreement, to be enforceable by law must be supported by valid consideration. An agreement made without any consideration is void. No consideration, no contract is a general rule. However, Section 25 of the Indian Contract Act, 1872 provides some exceptions to this rule, where an agreement without consideration will be valid and binding. These exceptions are as follows:

- (i) **Agreement made on account of natural love and affection:** Section 25 (1) provides that if an agreement is (i) in writing (ii) registered under the law and (iii) made on account of natural love and affection (iv) between the parties standing in a near relation to each other, it will be enforceable at law even if there is no consideration. Thus, where A, for natural love and affection, promises to give his son, B, ₹ 1,00,000 in writing and registers it. This is a valid contract.
- (ii) **Compensation for past voluntary services:** Section 25(2) provides that a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, is enforceable. Thus, when A finds B's purse and gives it to him and B promises to give A ₹ 5,000, this is a valid contract.
- (ii) **Promise to pay time-barred debts (Section 25 (3)):** Where there is an agreement, made in writing and signed by the debtor or by his agent, to pay wholly or in part a time barred debt, the agreement is valid and binding even though there is no consideration. If A owes B ₹ 1,00,000 but the debt is lapsed due to time-bar and A further makes a written promise to pay ₹ 50,000 on account of this debt, it constitutes a valid contract.
- (iv) **Contract of agency (Section 185):** No consideration is necessary to create an agency.
- (v) **Completed gift (Explanation 1 to Section 25):** A completed gift needs no consideration. Thus, if a person transfers some property by a duly written and registered deed as a gift he cannot claim back the property subsequently on the ground of lack of consideration.

Or

Mere silence not amounting to fraud: Mere silence as to facts likely to affect the willingness of a person to enter into a contract is no fraud; but where it is the duty of a person to speak, or his silence is equivalent to speech, silence amounts to fraud.

It is a rule of law that mere silence does not amount to fraud. A contracting party is not duty bound to disclose the whole truth to the other party or to give him the whole information in his possession affecting the subject matter of the contract.

The rule is contained in explanation to Section 17 of the Indian Contract Act which clearly states the position that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud.

Exceptions to this rule:

- (a) Where the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak. Duty to speak arises when one contracting party

reposes trust and confidence in the other or where one party has to depend upon the good sense of the other (e.g. Insurance Contract).

(b) Where the silence is, in itself, equivalent to speech.

(b) Partnership Deed

Partnership is the result of an agreement. No particular formalities are required for an agreement of partnership. It may be in writing or formed verbally. But it is desirable to have the partnership agreement in writing to avoid future disputes. The document in writing containing the various terms and conditions as to the relationship of the partners to each other is called the 'partnership deed'. It should be drafted with care and be stamped according to the provisions of the Stamp Act, 1899. Where the partnership comprises immovable property, the instrument of partnership must be in writing, stamped and registered under the Registration Act.

Partnership deed may contain the following information:-

1. Name of the partnership firm.
2. Names of all the partners.
3. Nature and place of the business of the firm.
4. Date of commencement of partnership.
5. Duration of the partnership firm.
6. Capital contribution of each partner.
7. Profit Sharing ratio of the partners.
8. Admission and Retirement of a partner.
9. Rates of interest on Capital, Drawings and loans.
10. Provisions for settlement of accounts in the case of dissolution of the firm.
11. Provisions for Salaries or commissions, payable to the partners, if any.
12. Provisions for expulsion of a partner in case of gross breach of duty or fraud.

A partnership firm may add or delete any provision according to the needs of the firm.

- (c) (i) **Correct:** Section 3 of the Companies Act, 2013 deals with the basic requirement with respect to the constitution of the company. In the case of a public company, any 7 or more persons can form a company for any lawful purpose by subscribing their names to memorandum and complying with the requirements of this Act in respect of registration. In exactly the same way, 2 or more persons can form a private company.
- (ii) **Incorrect:** The common seal is a seal used by a corporation as the symbol of its incorporation. The Companies (Amendment) Act, 2015 has made the common seal optional by omitting the words "and a common seal" from Section 9 so as to provide an alternative mode of authorization for companies who opt not to have a common seal. This amendment provides that the documents which need to be authenticated by a common seal will be required to be so done, only if the company opts to have a common seal. In case a company does not have a common seal, the authorization shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.

FOUNDATION COURSE

MOCK TEST PAPER

PAPER 2: SECTION-B: BUSINESS CORRESPONDENCE AND REPORTING

ANSWERS

1. (a) Passage - I

- (1) Option b (2) Option c (3) Option b (4) Option d (5) Option a

Passage -II

- (1) Option d (2) Option d (3) Option b (4) Option b (5) Option c

(b) Passage-I

Ministry's Decision Revoked (Heading)

- (I) S. Korean steel maker Posco under attack
(II) Prpsl for steel plant in Odisha reconsidered
(III) Need to rethink the descn
(a) Not based on solid grounds
(b) FDI's
(c) Land aqstn from natives nt easy
(d) Protests frm land holders
(IV) No concrete result
(a) 8 years past; standstill
(b) Neither proponent nor govt. able to justify its moves
(c) Leaves the matter open ended.

Key Used:

- (1) S= south
(2) Prpsl= proposal
(3) Descn= decision
(4) Aqstn- acquisition
(5) Nt= not
(6) Frm= from
(7) Govt= government.
(8) FDI= foreign direct investment

Summary

The clearance issued to South Korean steel maker Posco is under discussion for not being comprehensive and cumulative. The main issue in this regard is the protest from the local villagers of Odisha where the plant is proposed to be set up. There seems to be no strong reason as to why the villagers should give away their land, which is the main source of livelihood. Posco's proposal of working on social commitments has also not been accepted in a positive stride.

(b) Passage –II

Playing of National anthem in movie halls (Heading)

- (I) The Court's order withdrawn
- (II) Court makes it optional; cannot have a mandate on the issue
- (III) Consequences
 - (a) Government intervenes; calls for a ministerial discussion
 - (b) Proposes a hold on the court's judicial rule
 - (c) Suggest changes in the Prevention of Insults and National Honour Act
- (IV) Justice Chandrachud suggests, no end to 'moral policing'
- (V) Consequences
 - (a) Violence amongst people.
 - (b) Harassment of public.
 - (c) Disrespect in the society.

Key Used:

- (1) Order= order
- (2) Withdrawn= withdrawn
- (3) Makes= makes
- (4) Cannot= cannot
- (5) Government= government
- (6) Changes= changes
- (7) National= national
- (8) Consequences= consequences
- (9) Amongst= amongst
- (10) People= people
- (11) Society= society

Summary

The Supreme Court's unfortunate order of playing the national anthem in movie halls before every screening has gained a lot of criticism. As a result, the order has been revoked with Justice D. Y. Chandrachud, one of the judges of the bench citing that patriotism need not be shown at every step in life. The court's order had been received with a pinch of salt and had led to unpleasant happenings and disturbance among the public.

2. (a) **Star Network:** has multiple channels of network in communication. This network allows a group communication and is useful especially where teamwork is involved. The members communicate and exchange information with each other freely, and without hindrance or hesitation. The usefulness of all networks depends on the structure and size of the company, and the manner of communication between the employees.
- (b) (i) a
(ii) d

- (iii) All books will be given to the orphans by Elizabeth.
- (iv) The master yelled at the servant to get lost and not show his face.

(c) **Passage-I**

One Tax for all: GST

Goods and Service Tax (GST) is a complete tax structure of an indirect form, levied on manufacturing and sale of goods and services. It aims to combine all taxes into one, thus reducing the burden of the consumer. GST unifies the market sector throughout the country with the aim to tax consumption and not production.

Passage-II

South Korea in deep trouble

South Korea having gained the status of a democracy is yet to settle issues like, corruption, political conflicts, lack of leadership and consensus and many more. The efforts made by the new leaders in the economic and social front have resulted in unexpected turns leading to more conflicts, distrust and erroneous policies. As a result, many loopholes have come into existence and hence made the civic organizations dominate the political institutions.

3. (a) **Chain of Command:** The communication pattern that follows the chain of command from the senior to the junior is called the chain network. Communication starts at the top, like from a CEO, and works its way down to the different levels of employees. It involves a lot of organizational hierarchy.
- (b) (i) b
(ii) a
(iii) Delicious desserts are prepared by my aunt.
(iv) Elders always say that if you work hard, you will succeed.

(c) Letter-1

XYZ Company

Chennai

Date: 10th Jan, 2018

Manager, Finance

Oil India Ltd

Chennai

Dear Sir/Ma'am

Sub: Enquiry for prices for bulk orders

This is regarding the requirement of oil, for our well known chips brand, Aunty Chips. We would like to enquire the rates for bulk order of refined oil, produced by your company.

We are an established brand in the FMCG sector, hence we feel the association would be mutually beneficial.

Kindly send the pricing details, also stating the mode of delivery.

Looking forward to your response.

Thanks and Regards,

Manager, Supply Chain Division

XYZ company

Letter-II

Manager Operations and Admin

Net Solutions

Mumbai

13th feb, 2018

Administration Head

Food for you Solutions

Mumbai

Dear Sir/Madam

Sub: Complaint against food quality

This with reference to the food supplied to our cafeteria by your company's kitchen. Unfortunately, for the past few weeks, we have observed a degradation in the quality of food items, especially rice, wheat flour and pulses.

A few of our employees complained of ill health after having consumed your food. I presume stale food is not being sent to us.

Kindly assure that the raw material you use is of high quality standards and is ISI approved.

I sincerely request you to look into this matter as it involves the health of people working for us, for which we are solely responsible.

Thanks and Regards,

Name

Manager, Ops and Admin

Net Solutions

4. (a) Barriers in communication:

- Physical Barriers
- Cultural Barriers
- Language Barriers
- Technology Barriers
- Emotional Barriers

Technology Barriers: Being a technology driven world, all communication is dependent on good and extensive use of technology. However, there might arise technical issues, like server crash, overload of information etc which lead to miscommunication or no communication at all.

Language Barriers: It's a cosmopolitan set up, where people of different nationalities move from their home to other countries for work. As a result, it is difficult to have a common language for communication. Hence, diversity gives rise to many languages and it acts as a barrier at times.

(b) (i) b

(ii) May you be blessed by God with health and happiness.

(iii) The Minister announced that their party would introduce GST from the next day.

(c) **Article Writing**

Hints:

- Causes of health issues: a crisp list
- Office work
- Lifestyle
- Eating habits
- Growing economy
- Money splurge
- Effects: direct effects
- Diseases
- Physical health issues
- Strain on eyes
- Young deaths

Report Writing

Hints:

- Have a good heading
- Mention the time, date, venue
- Divide the report into three paragraphs:
- What/When/Where/ Who was invited
- Purpose of the event (learn about the cultural diversity)
- Describe the event in details (name of schools that participated, the dances and other cultural programmes performed, the food stalls, the game stalls)
- Enthusiasm in the student community
- Conclude with an optimistic view.

5. (a) **Based on Communication channels, there are three kinds of categories:**

- Verbal: Verbal communication involves the use of words and language in delivering the intended message
- Non Verbal: Nonverbal communication is the process of communicating by sending and receiving wordless messages. These messages can aid verbal communication, convey

thoughts and feelings contrary to the spoken words or express ideas and emotions on their own.

- Visual: Visual communication through visual aids such as signs, typography, drawing, graphic design, illustration, colour and other electronic resources usually reinforces written communication. Visuals like graphs, pie charts and other diagrammatic presentations convey clearly and concisely a great deal of information. They are an essential part of official presentations these days.

(b) (i) b

(ii) d

(iii) The BCCI congratulated the U 19 cricket team for its World Cup win.

(c) **Action Taken Report (ATR)**

As per the meeting held on 12th Jan, 2018 at the Southern Region branch office of CP finance Ltd, following actions have been reported:

- The client had complied to clear the pending dues by 10th Jan, 2018.
- The client has asked for more time. Reason mentioned: losses incurred in business.
- On the basis of being an old client, with no such bad record, order passed to provide more time for payment.
- Expected payment till 31st January, 2018.

Undersigned

Director, Sales & Marketing

Director, Business

Chronological Resume

Name

Address

Phone Number

Email

OBJECTIVE: To be associated with an organisation that will offer to me tremendous opportunities for growth in career and provide a challenging environment that will utilise my accounting skills and abilities to the maximum.

SUMMARY:

- Have cleared IPCC, Group 1
- Have an years experience of working in an office
- Possess good management skills
- Can work under pressure situations
- Willingness to learn more is the driving factor.

EXPERIENCE:

2017 to present day

Junior Manager

Name the company, address

MOCK TEST PAPER
FOUNDATION COURSE
PAPER 2A: BUSINESS LAWS

Question No. 1 is compulsory.

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions should be made and disclosed
by way of note forming part of the answer.*

Working Notes should form part of the answer.

Total Marks: 60

QUESTIONS

1. (a) Ishaan, aged 16 years, was studying in an engineering college. On 1st March, 2016 he took a loan of ₹ 2 lakhs from Vishal for the payment of his college fee and agreed to pay by 30th May, 2017. Ishaan possesses assets worth ₹ 15 lakhs. On due date Ishaan fails to pay back the loan to Vishal. Vishal now wants to recover the loan from Ishaan out of his assets. Decide whether Vishal would succeed referring to the provisions of the Indian Contract Act, 1872. **(4 Marks)**
- (b) Krishna, an assessee, was a wealthy man earning huge income by way of dividend and interest. He formed three Private Companies and agreed with each to hold a bloc of investment as an agent for them. The dividend and interest income received by the companies was handed back to Krishna as a pretended loan. This way, Krishna divided his income into three parts in a bid to reduce his tax liability.
Decide, for what purpose the three companies were established? Whether the legal personality of all the three companies may be disregarded. **(4 Marks)**
- (c) Explain the difference between Sale and Agreement to sell under the Sale of Goods Act, 1930. **(4 Marks)**
2. (a) State the grounds upon which a contract may be discharged under the provisions of the Indian Contract Act, 1872. **(7 Marks)**
- (b) State the meaning of Limited Liability Partnership (LLP). What are the relevant steps to incorporate LLP? **(5 Marks)**
3. (a) State the modes by which a partner may transfer his interest in the firm in favour of another person under the Indian Partnership Act, 1932. What are the rights of such a transferee? **(6 Marks)**
- (b) 'X' entered into a contract with 'Y' to supply him 1,000 water bottles @ ₹ 5.00 per water bottle, to be delivered at a specified time. Thereafter, 'X' contracts with 'Z' for the purchase of 1,000 water bottles @ ₹ 4.50 per water bottle, and at the same time told 'Z' that he did so for the purpose of performing his contract entered into with 'Y'. 'Z' failed to perform his contract in due course and market price of each water bottle on that day was ₹ 5.25 per water bottle. Consequently, 'X' could not procure any water bottle and 'Y' rescinded the contract. Calculate the amount of damages which 'X' could claim from 'Z' in the circumstances? What would be your answer if 'Z' had not informed about the 'Y's contract? Explain with reference to the provisions of the Indian Contract Act, 1872. **(6 Marks)**

4. (a) What are the implied conditions in a contract of 'Sale by sample' under the Sale of Goods Act, 1930? State also the implied warranties operative under the said Act. **(6 Marks)**
- (b) A, B and C are partners in a firm called ABC Firm. A, with the intention of deceiving D, a supplier of office stationery, buys certain stationery on behalf of the ABC Firm. The stationery is of use in the ordinary course of the firm's business. A does not give the stationery to the firm, instead brings it to his own use. The supplier D, who is unaware of the private use of stationery by A, claims the price from the firm. The firm refuses to pay for the price, on the ground that the stationery was never received by it (firm). Referring to the provisions of the Indian Partnership Act, 1932 decide:
- (i) Whether the Firm's contention shall be tenable?
- (ii) What would be your answer if a part of the stationery so purchased by A was delivered to the firm by him, and the rest of the stationery was used by him for private use, about which neither the firm nor the supplier D was aware? **(6 Marks)**
5. (a) Mr. Samuel agreed to purchase 100 bales of cotton from Mr. Varun, out of his large stock and sent his men to take delivery of the goods. They could pack only 60 bales. Later on, there was an accidental fire and the entire stock was destroyed including 60 bales that were already packed. Referring to the provisions of the Sale of Goods Act, 1930 explain as to who will bear the loss and to what extent? **(6 Marks)**
- (b) Explain the meaning of Guarantee Company? State the similarities and dissimilarities between a 'Guarantee Company' and 'Company Limited by Shares'. **(6 Marks)**
6. (a) "No consideration, no contract". Discuss.

Or

- "Mere silence does not amount to fraud". Discuss. **(5 Marks)**
- (b) What is Partnership Deed and state the information contained therein? **(4 Marks)**
- (c) Examine with reasons whether the following statement is correct or incorrect:
- (i) A private limited company must have a minimum of two members, while a public limited company must have at least seven members.
- (ii) Affixing of Common seal on company's documents is compulsory. **(3 Marks)**

MOCK TEST PAPER
FOUNDATION COURSE
PAPER 2A: BUSINESS LAWS

ANSWERS

1. (a) According to Section 11 of the Indian Contract Act, 1872, every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind and is not disqualified from contracting by any law to which he is subject.

A person who has completed the age of 18 years is a major and otherwise he will be treated as minor. Thus, Ishaan who is a minor is incompetent to contract and any agreement with him is void [*Mohori Bibi Vs Dharmo Das Ghose 1903*].

Section 68 of the Indian Contract Act, 1872 however, prescribes the liability of a minor for the supply of the things which are the necessaries of life to him. It says that though minor is not personally liable to pay the price of necessaries supplied to him or money lent for the purpose, the supplier or lender will be entitled to claim the money/price of goods or services which are necessaries suited to his condition of life provided that the minor has a property. The liability of minor is only to the extent of the minor's property. Thus, according to the above provision, Vishal will be entitled to recover the amount of loan given to Ishaan for payment of the college fees from the property of the minor.

- (b) The House of Lords in *Salomon Vs. Salomon & Co. Ltd.* laid down that a company is a person distinct and separate from its members, and therefore, has an independent separate legal existence from its members who have constituted the company. But under certain circumstances the separate entity of the company may be ignored by the courts. When that happens, the courts ignore the corporate entity of the company and look behind the corporate façade and hold the persons in control of the management of its affairs liable for the acts of the company. Where a company is incorporated and formed by certain persons only for the purpose of evading taxes, the courts have discretion to disregard the corporate entity and tax the income in the hands of the appropriate assessee.

(1) The problem asked in the question is based upon the aforesaid facts. The three companies were formed by the assessee purely and simply as a means of avoiding tax and the companies were nothing more than the façade of the assessee himself. Therefore, the whole idea of Mr. Krishna was simply to split his income into three parts with a view to evade tax. No other business was done by the company.

(2) The legal personality of the three private companies may be disregarded because the companies were formed only to avoid tax liability. It carried no other business, but was created simply as a legal entity to ostensibly receive the dividend and interest and to hand them over to the assessee as pretended loans.

- (c) The differences between the sale and agreement to sell is as follows:

Basis of difference	Sale	Agreement to sell
Transfer of property	The property in the goods passes to the buyer immediately.	Property in the goods passes to the buyer on future date or on fulfilment of some condition.

Nature of contract	It is an executed contract. i.e. contract for which consideration has been paid.	It is an executory contract. i.e. contract for which consideration is to be paid at a future date.
Remedies for breach	The seller can sue the buyer for the price of the goods because of the passing of the property therein to the buyer.	The aggrieved party can sue for damages only and not for the price, unless the price was payable at a stated date.
Liability of parties	A subsequent loss or destruction of the goods is the liability of the buyer.	Such loss or destruction is the liability of the seller.
Burden of risk	Risk of loss is that of buyer since risk follows ownership.	Risk of loss is that of seller.
Nature of rights	Creates Jus in rem	Creates Jus in personam
Right of resale	The seller cannot resell the goods.	The seller may sell the goods since ownership is with the seller.

2. (a) Discharge of a Contract:

A Contract may be discharged either by an act of parties or by an operation of law which may be enumerated as follows:

- (1) *Discharge by performance* which may be actual performance or attempted performance. Actual performance is said to have taken place, when each of the parties has done what he had agreed to do under the agreement. When the promisor offers to perform his obligation, but the promisee refuses to accept the performance, it amounts to attempted performance or tender.
- (2) *Discharge by mutual agreement*: Section 62 of the Indian Contract Act, 1872 provides that if the parties to a contract agree to substitute a new contract for it or to refund or remit or alter it, the original contract need not to be performed. Novation, Rescission, Alteration and Remission are also the same ground of this nature.
- (3) *Discharge by impossibility of performance*: The impossibility may exist from its initiation. Alternatively, it may be supervening impossibility which may take place owing to (a) unforeseen change in law (b) The destruction of subject matter (c) The non-existence or non-occurrence of particular state of things (d) the declaration of war (Section 56).
- (4) *Discharge by lapse of time*: A contract should be performed within a specific period as prescribed in the Law of Limitation Act., 1963. If it is not performed the party is deprived of remedy at law.
- (5) *Discharge by operation of law*: It may occur by death of the promisor, by insolvency etc.
- (6) *Discharge by breach of contract*: Breach of contract may be actual breach of contract or anticipatory breach of contract. If one party defaults in performing his part of the contract on the due date, he is said to have committed breach thereof. When on the other hand, a person repudiates a contract before the stipulated time for its performance has arrived, he is deemed to have committed anticipatory breach. If one of the parties to a contract breaks the promise the party injured thereby, has not only a right of action for damages but he is also discharged from performing his part of the contract (Section 64).
- (7) A promisee may dispense with or remit, wholly or in part, the performance of the promise made to him, or may extend the time for such performance or may accept instead of it any satisfaction he thinks fit. In other words, a contract may be discharged by remission. (Section 63).

(8) When a promisee neglects or refuses to afford the promisor reasonable facilities for the performance of the promise, the promisor is excused by such neglect or refusal (Section 67).

(b) Meaning: A LLP is a new form of legal business entity with limited liability. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership. The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the partners will be limited.

Steps to incorporate LLP:

(a) Name reservation

- The first step to incorporate Limited Liability Partnership (LLP) is reservation of name of LLP.
- Applicant has to file e- Form 1, for ascertaining availability and reservation of the name of a LLP business.

(b) Incorporate LLP

- After reserving a name, user has to file e- Form 2 for incorporating a new Limited Liability Partnership (LLP).
- e-Form 2 contains the details of LLP proposed to be incorporated, partners'/ designated partners' details and consent of the partners/ designated partners to act as partners/ designated partners.

(c) LLP Agreement

- Execution of LLP Agreement is mandatory as per Section 23 of the Act.
- LLP Agreement is required to be filed with the registrar in e- Form 3 within 30 days of incorporation of LLP.

3. (a) Section 29 of the Indian Partnership Act, 1932 provides that a share in a partnership is transferable like any other property, but as the partnership relationship is based on mutual confidence, the assignee of a partner's interest by sale, mortgage or otherwise cannot enjoy the same rights and privileges as the original partner.

The rights of such a transferee are as follows:

(1) During the continuance of partnership, such transferee is not entitled

- (a) to interfere with the conduct of the business,
- (b) to require accounts, or
- (c) to inspect books of the firm.

He is only entitled to receive the share of the profits of the transferring partner and he is bound to accept the profits as agreed to by the partners, i.e., he cannot challenge the accounts.

(2) On the dissolution of the firm or on the retirement of the transferring partner, the transferee will be entitled, against the remaining partners:

- (a) to receive the share of the assets of the firm to which the transferring partner was entitled, and
- (b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

By virtue of Section 31, no person can be introduced as a partner in a firm without the consent of all the partners. A partner cannot by transferring his own interest, make anybody else a partner in his place, unless the other partners agree to accept that person as a partner. At the

same time, a partner is not debarred from transferring his interest. A partner's interest in the partnership can be regarded as an existing interest and tangible property which can be assigned.

- (b) **BREACH OF CONTRACT- DAMAGES:** Section 73 of the Indian Contract Act, 1872 lays down that when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract to be likely to result from the breach of it.

The leading case on this point is "*Hadley v. Baxendale*" in which it was decided by the Court that the special circumstances under which the contract was actually made were communicated by the plaintiff to the defendant, and thus known to both the parties to the contract, the damages resulting from the breach of such contract which they would reasonably contemplate, would be the amount of injury which would ordinarily follow from the breach of contract under these special circumstances so known and communicated.

The problem asked in this question is based on the provisions of Section 73 of the Indian Contract Act, 1872. In the instant case 'X' had intimated to 'Z' that he was purchasing water bottles from him for the purpose of performing his contract with 'Y'. Thus, 'Z' had the knowledge of the special circumstances. Therefore, 'X' is entitled to claim from 'Z' ₹ 500/- at the rate of 0.50 paise i.e. 1000 water bottles x 0.50 paise (difference between the procuring price of water bottles and contracted selling price to 'Y') being the amount of profit 'X' would have made by the performance of his contract with 'Y'.

If 'X' had not informed 'Z' of 'Y's contract, then the amount of damages would have been the difference between the contract price and the market price on the day of default. In other words, the amount of damages would be ₹ 750/- (i.e. 1000 water bottles x 0.75 paise).

4. (a) The following are implied conditions in a contract of sale by sample in accordance with Section 17 of the Sale of Goods Act, 1930;
- that the bulk shall correspond with the sample in quality;
 - that the buyer shall have a reasonable opportunity of comparing the bulk with the sample.
 - that the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on a reasonable examination of the sample.

Implied Warrants:

- Warranty as to undisturbed possession [Section 14(b)]:* An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.
 - Warranty as to non-existence of encumbrances [Section 14(c)]:* An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.
 - Warranty as to quality or fitness by usage of trade [Section 16(3)].* An implied warranty as to quality or fitness for a particular purpose may be annexed by the usage of trade.
 - Warranty to disclose dangerous nature of goods:* Where a person sells goods, knowing that the goods are inherently dangerous or they are likely to be dangerous to the buyer and that the buyer is ignorant of the danger, he must warn the buyer of the probable danger, otherwise he will be liable in damages.
- (b) The problem in the question is based on the 'Implied Authority' of a partner provided in Section 19 of the Indian Partnership Act, 1932. The section provides that subject to the provisions of Section 22 of the Act, the act of a partner, which is done to carry on, in the usual way, business of the kind

carried on by the firm, binds the firm. The authority of a partner to bind the firm conferred by this section is called his 'Implied Authority' [Sub-Section (1) of section 19]. Furthermore, every partner is in contemplation of law the general and accredited agent of the partnership and may consequently bind all the other partners by his acts in all matters which are within the scope and object of the partnership. Hence, if the partnership is of a general commercial nature, he may buy goods on account of the partnership.

Considering the above provisions and explanation, the questions as asked in the problem may be answered as under:

- (i) The firm's contention is not tenable, for the reason that the partner, in the usual course of the business on behalf of the firm has an implied authority to bind the firm. The firm is, therefore, liable for the price of the goods.
- (ii) In the second case also, the answer would be the same as above, i.e. the implied authority of the partner binds the firm.

In both the cases, however, the firm ABC can take action against A, the partner but it has to pay the price of stationery to the supplier D.

5. (a) Section 26 of the Sale of Goods Act, 1930 provides that unless otherwise agreed, the goods remain at the seller's risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at buyer's risk whether delivery has been made or not. Further Section 18 read with Section 23 of the Act provides that in a contract for the sale of unascertained goods, no property in the goods is transferred to the buyer, unless and until the goods are ascertained and where there is contract for the sale of unascertained or future goods by description, and goods of that description and in a deliverable state are unconditionally appropriated to the contract, either by the seller with the assent of the buyer or by the buyer with the assent of the seller, the property in the goods thereupon passes to the buyer. Such assent may be express or implied. Applying the aforesaid law to the facts of the case in hand, it is clear that Mr. Samuel has the right to select the good out of the bulk and he has sent his men for same purpose.

Hence the problem can be answered based on the following two assumptions and the answer will vary accordingly.

- (a) **Where the bales have been selected with the consent of the buyer's representatives:**

In this case, the property in the 60 bales has been transferred to the buyer and goods have been appropriated to the contract. Thus, loss arising due to fire in case of 60 bales would be borne by Mr. Samuel. As regards 40 bales, the loss would be borne by Mr. Varun, since the goods have not been identified and appropriated.

- (b) **Where the bales have not been selected with the consent of buyer's representatives.**

In this case the property in the goods has not been transferred at all and hence the loss of 100 bales would be borne by Mr. Varun completely.

- (b) **Meaning of Guarantee Company:** Section 2(21) of the Companies Act, 2013 defines a Company Limited by Guarantee as a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. Thus, the liability of the members of a guarantee company is limited to a stipulated amount in terms of individual guarantees given by members and mentioned in the memorandum. The members cannot be called upon to contribute more than such stipulated amount for which each member has given a guarantee in the memorandum of association.

Similarities and dis-similarities between the Guarantee Company and the Company limited by shares: The common features between a "guarantee company" and the "company limited

share” are legal entity and limited liability. In case of a company limited by shares, the liability of its members is limited to the amount remaining unpaid on the shares held by them. Both these type of companies have to state this fact in their memorandum that the members’ liability is limited.

However, the dissimilarities between a ‘guarantee company’ and ‘company limited by shares’ is that in the former case the members will be called upon to discharge their liability only after commencement of the winding up of the company and only to the extent of amounts guaranteed by them respectively; whereas in the case of a company limited by shares, the members may be called upon to discharge their liability at any time, either during the life of the company or during the course of its winding up.

6. (a) **No consideration, no contract:** Every agreement, to be enforceable by law must be supported by valid consideration. An agreement made without any consideration is void. No consideration, no contract is a general rule. However, Section 25 of the Indian Contract Act, 1872 provides some exceptions to this rule, where an agreement without consideration will be valid and binding. These exceptions are as follows:
- (i) **Agreement made on account of natural love and affection:** Section 25 (1) provides that if an agreement is (i) in writing (ii) registered under the law and (iii) made on account of natural love and affection (iv) between the parties standing in a near relation to each other, it will be enforceable at law even if there is no consideration. Thus, where A, for natural love and affection, promises to give his son, B, ₹ 1,00,000 in writing and registers it. This is a valid contract.
 - (ii) **Compensation for past voluntary services:** Section 25(2) provides that a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, is enforceable. Thus, when A finds B's purse and gives it to him and B promises to give A ₹ 5,000, this is a valid contract.
 - (ii) **Promise to pay time-barred debts (Section 25 (3)):** Where there is an agreement, made in writing and signed by the debtor or by his agent, to pay wholly or in part a time barred debt, the agreement is valid and binding even though there is no consideration. If A owes B ₹ 1,00,000 but the debt is lapsed due to time-bar and A further makes a written promise to pay ₹ 50,000 on account of this debt, it constitutes a valid contract.
 - (iv) **Contract of agency (Section 185):** No consideration is necessary to create an agency.
 - (v) **Completed gift (Explanation 1 to Section 25):** A completed gift needs no consideration. Thus, if a person transfers some property by a duly written and registered deed as a gift he cannot claim back the property subsequently on the ground of lack of consideration.

Or

Mere silence not amounting to fraud: Mere silence as to facts likely to affect the willingness of a person to enter into a contract is no fraud; but where it is the duty of a person to speak, or his silence is equivalent to speech, silence amounts to fraud.

It is a rule of law that mere silence does not amount to fraud. A contracting party is not duty bound to disclose the whole truth to the other party or to give him the whole information in his possession affecting the subject matter of the contract.

The rule is contained in explanation to Section 17 of the Indian Contract Act which clearly states the position that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud.

Exceptions to this rule:

- (a) Where the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak. Duty to speak arises when one contracting party

reposes trust and confidence in the other or where one party has to depend upon the good sense of the other (e.g. Insurance Contract).

(b) Where the silence is, in itself, equivalent to speech.

(b) Partnership Deed

Partnership is the result of an agreement. No particular formalities are required for an agreement of partnership. It may be in writing or formed verbally. But it is desirable to have the partnership agreement in writing to avoid future disputes. The document in writing containing the various terms and conditions as to the relationship of the partners to each other is called the 'partnership deed'. It should be drafted with care and be stamped according to the provisions of the Stamp Act, 1899. Where the partnership comprises immovable property, the instrument of partnership must be in writing, stamped and registered under the Registration Act.

Partnership deed may contain the following information:-

1. Name of the partnership firm.
2. Names of all the partners.
3. Nature and place of the business of the firm.
4. Date of commencement of partnership.
5. Duration of the partnership firm.
6. Capital contribution of each partner.
7. Profit Sharing ratio of the partners.
8. Admission and Retirement of a partner.
9. Rates of interest on Capital, Drawings and loans.
10. Provisions for settlement of accounts in the case of dissolution of the firm.
11. Provisions for Salaries or commissions, payable to the partners, if any.
12. Provisions for expulsion of a partner in case of gross breach of duty or fraud.

A partnership firm may add or delete any provision according to the needs of the firm.

- (c) (i) **Correct:** Section 3 of the Companies Act, 2013 deals with the basic requirement with respect to the constitution of the company. In the case of a public company, any 7 or more persons can form a company for any lawful purpose by subscribing their names to memorandum and complying with the requirements of this Act in respect of registration. In exactly the same way, 2 or more persons can form a private company.
- (ii) **Incorrect:** The common seal is a seal used by a corporation as the symbol of its incorporation. The Companies (Amendment) Act, 2015 has made the common seal optional by omitting the words "and a common seal" from Section 9 so as to provide an alternative mode of authorization for companies who opt not to have a common seal. This amendment provides that the documents which need to be authenticated by a common seal will be required to be so done, only if the company opts to have a common seal. In case a company does not have a common seal, the authorization shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.

FOUNDATION COURSE

MOCK TEST PAPER

PAPER 2: SECTION-B: BUSINESS CORRESPONDENCE AND REPORTING

The Question Paper comprises of 5 questions of 10 marks each.

*Question No. 1 is compulsory. Out of questions 2 to 5, attempt any **three**.*

Max Marks: 40

1. (a) Given below are two passages followed by questions. Attempt any one

(I) Read the passage carefully and answer the questions that follow:

Bitcoins and other cryptocurrencies will see increasing use in India, according to industry players, who say that, right now, the sector is too small to be regulated by the Reserve Bank of India (RBI) or Finance Ministry. Bitcoin companies also say that volatility in the cryptocurrency's price is likely to continue since it is still attracting new investors with inadequate knowledge about the market, with speculation separately fuelling the price gyrations.

"The fluctuation has always been there, but suddenly there has been a surge because of a few reasons," said Vivek Steve Francis, CEO of Coinome. "One, things that are happening in the market. Some countries have legalised cryptocurrencies like Japan and Korea, and in the U.S. they have announced that there will be bitcoin futures trading. So, this not only gives a legal standing to it, it also opens the door to speculation."

"The second thing is that people are seeing others put in 1 lakh and making 10% the very next day, so that is also bringing a lot of laymen into this, which may or may not be a good thing," Mr. Francis added.

Another reason for the price volatility, something that will continue for some time, is the disaggregated nature of the bitcoin market. "Since bitcoin is widely distributed and the majority of it is not owned by a limited number of people, that makes it volatile," Ashish Agarwal, founder of Bitsachs, said. "As far as the future is concerned, I won't want to comment on the price, but adoption will increase. Now, the serious investors are eyeing bitcoin. No newspaper or serious person would have mentioned bitcoin five years ago, but now all eyes are on it."

While the RBI has cautioned against its use, informing users, holders, investors and traders dealing with virtual currencies that they are doing so at their own risk, Securities and Exchange Board of India Chairman Ajay Tyagi recently said the cryptocurrency had so far not posed any systemic risk. He added that the government had formed a panel to examine it.

- (1) What does the word 'volatile' means (Since bitcoin is widely distributed and the majority of it is not owned by a limited number of people, that makes it volatile.....)

- (a) Violent
- (b) Unstable
- (c) High
- (d) Irrational

(1 Mark)

- (2) Give a synonym for the word 'gyrations' as used in the first paragraph.

- (a) Evolution
- (b) Cyclone
- (c) Spinning

- (d) Rising (1 Mark)
- (3) What is the primary reason for laymen to start believing in bitcoin?
- (a) It's easy to use nature
(b) The fact that the value increases by 10% the very next day
(c) There is no check on bitcoin transactions
(d) Japan has legalized it. (1 Mark)
- (4) What are the reasons mentioned for the volatility in the crypto currency price?
- (a) Legalized in few countries.
(b) Fast money
(c) New investors
(d) Inadequate market knowledge and new investors. (1 Mark)
- (5) According to Mr. Ashish Agarwal, which of the following statements said by him are false?
- (a) The adoption of bitcoin will decrease as buyers are no more interested
(b) He does not want to comment on the bitcoin price
(c) Few years back, this concept was not discussed
(d) People now seem to show interest in bitcoin. (1 Mark)

(II) Read the passage carefully and answer the questions that follow:

Jallikattu, the bull-taming sport of Tamil Nadu banned by the Supreme Court due to cruelty to the animals, is not just a folk sport. It has spawned an economy of its own in rural parts of the state that has far-reaching implications.

Bulls that are reared for Jallikattu are an asset class of sorts. For instance, a poor farmer buys a bull calf for ₹ 15,000. He raises it to make it strong. The feeding and maintenance of the bull costs him nearly ₹ 300 a day. The calf matures after one-and-a-half years. If the farmer makes it perform in Jallikattus, he can win prizes if it performs well. That also raises their prices to a few lakhs. Good bulls provide a very high return on investment.

The Supreme Court's decision to ban Jallikattu has brought down prices of the sport bulls. From ₹ 2 lakh to ₹ 3 lakh, they began selling at mere ₹ 5,000. Apart from the cultural angle, there is a small economy involved. Rearing of sport bulls not only give small farmers and the rural poor a chance to make a low investment in a calf and get a big return if it performs well in a Jallikattu; rearing a Jallikattu bull also supports a range of rural poor who make accessories for the bull. Since a Jallikattu bull is a matter of pride for the owner and a potential means of high return, it is decorated with various accessories made by rural artisans. Rich owners of Jallikattu bulls employ a number of poor workers for the upkeep of the bull.

Also, a lot of money is spent on a Jallikattu event. It ranges from ₹ 50,000 to ₹ 20 lakh. Dozens of Jallikattus were organised before the legal intervention by PETA. Jallikattus are big events that draw people in thousands. They generate a lot of consumption around them, which is significant for the rural poor.

- (1) Why has the price of sports bulls reduced?
- (a) Bulls are not being fed properly
(b) Farmers have become poor and hence do not care for their bulls.
(c) People are buying cows more than bulls
(d) The Supreme court ban on Jallikattu. (1 Mark)

- (2) What amount approximately is spent on a Jallikattu event?
(a) Thousands
(b) Ten thousands
(c) Crores
(d) Lakhs. **(1 Mark)**
- (3) How do good bulls offer a high return on investment?
(a) The bull becomes stronger on becoming a sports bull
(b) The price of a bull increases after its win.
(c) The Supreme Court awards the owner of a winner bull
(d) Not stated in the passage. **(1 Mark)**
- (4) Why does Jallikattu bull rearing effect people other than the owner?
(a) It offers distribution of money.
(b) It involves people who make accessories and help in rearing of the bull
(c) All villagers own one bull.
(d) The owner has to pay of his debts. **(1 Mark)**
- (5) Why was the folk sport Jallikattu banned by the Supreme Court?
(a) Not many people were interested in it
(b) The bulls were not properly fed to play the sport
(c) It caused cruelty to the animals.
(d) All of the above.

(b) Given below are two passages. Attempt any one.

- (i) Make notes, using headings, sub-headings, and abbreviations wherever necessary. **(3 Marks)**

- (ii) Write summary. **(2 Marks)**

- (1) The decision of the Ministry of Environment and Forests to revalidate the environmental clearance issued to South Korean steelmaker Posco for the proposed steel plant in Odisha is based on a piecemeal approach, rather than a comprehensive and cumulative assessment of all parts of the project. It cannot claim to rely on sound judgment. What distinguishes the proposal from the welter of projects before the Ministry is its major Foreign Direct Investment potential, estimated at more than ₹ 50,000 crore. There is little doubt that it will take massive investments to pull the masses out of deep poverty, and new industries are vital to achieving this goal. Significant expansion of the economy has taken place over the past two decades, creating much wealth. Unfortunately, this has also coincided with grossly uneven distribution of negative externalities. In the case of Posco, the acquisition of land has been a contentious issue, evoking strong protest from local communities which remain unconvinced about the benefits. Evidently, neither the project proponent nor the Odisha government has come up with persuasive arguments over the past eight years on why villagers should part with their land when their livelihood is linked to it. Moreover, there is no effort to reach a consensus on the renewal of environmental clearance, now for a production capacity of eight million tonnes per annum, even with conditionalities that include spending on 'social commitments' by Posco.

(2) By making it optional for cinema halls to play the national anthem before every show, the Supreme Court has at last removed the coercive element it had unfortunately introduced by an interim order in November 2016. Laying down a judicial rule that the anthem must be played on certain occasions in specific places, in the absence of any statutory provision to this effect, was unnecessary and opened the court to charges of over-reach. With the Centre saying this directive could be placed on hold, and that it would set up an inter-ministerial committee to recommend regulations for the presentation of the national anthem, the court has said it is not mandatory to play it in cinema halls. The panel will also suggest changes in the Prevention of Insults to National Honour Act, 1971, or in the Orders relating to the anthem issued from time to time. Justice D.Y. Chandrachud, one of the three judges on the Bench, had at an earlier hearing doubted the wisdom of asking patrons of cinema to visibly demonstrate their patriotism each time they entered a theatre to watch a film, remarking that there was no need for an Indian to “wear his patriotism on his sleeve”. He had asked at what point would such “moral policing” stop if it were to be prescribed that some kinds of apparel should not be worn at the movies as they could amount to showing disrespect to the national anthem. The court’s order also had some unintended, but not unforeseen, consequences. The audience began looking for signs of ‘disrespect’ and there were reports of vigilantism, with people beaten up or harangued for not standing up.

2. (a) Explain the Star Network in the channel of communication. **(1 Mark)**

(b) (i) Choose the word which best expresses the meaning of the given word.

Recede

(a) Move back (b) Accept (c) Deviate (d) Agree

(1 Mark)

(ii) Select a suitable antonym for the word given in question.

Inept

(a) Aptitude (b) Long lasting (c) Inappropriate (d) Skilled

(1 Mark)

(iii) Change the following sentences into passive voice.

Elizabeth will give all books to the orphans.

(1 Mark)

(iv) Change the following sentences to indirect speech.

The master yelled at the servant, ‘Get lost and don’t show your face’

(1 Mark)

(c) Write a précis and give appropriate titles to any one of the two passages given below.

(1) The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.

On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods

In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

- (2) A dual transition—to a consolidated democracy and an advanced market economy—represents the main challenge that the Korean political and economic system currently confronts. During the two decades since it became a democracy, South Korea has faced lingering problems, such as poor governance, high-level corruption, lack of leadership, political conflict, social polarization, volatile public opinion, and lack of consensus on major issues.

At the same time, profound leadership changes have fundamentally changed the South Korean political landscape. The new leadership has attempted to dismantle social, economic, and political structures that were formed during the Cold War and to establish a more democratic and diplomatically independent society. Such an approach has resulted in further social and political conflict, trials and errors in policy, civic distrust, and a lingering leadership crisis.

Although Korean democracy is successfully consolidated, it is far from effective. There are profound generational cleavages over various national issues, including economic and social policies, policies toward North Korea and national defense, and attitudes towards the United States and China. Under these circumstances, political institutions have been pushed aside, and civic organizations are dominant. **(5 Marks)**

3. (a) What is the 'chain of command' in communication? **(1 Mark)**

- (b) (i) Choose the word which best expresses the meaning of the given word.

Stimulate

- (a) Effects (b) Activate (c) Irritate (d) Captivate

(1 Mark)

- (ii) Choose the appropriate word to fill the blank:

The scam was basically because of _____ of funds by the senior members of the organization.

- (a) Misappropriation (b) credibility (c) Movement (d) Allotment

(1 Mark)

- (iii) Change the following sentences into passive voice

My aunt prepares delicious desserts.

(1 Mark)

- (iv) Change the following sentence to indirect speech.

Elders always say, 'If you work hard, you will succeed'

(1 Mark)

- (c) As the Manager, Supply Chain Division, of an FMCG company write an enquiry letter to your counterpart of an Oil Manufacturing company, stating your queries regarding oil prices at bulk rate.

OR

As the Manager, HR of Net Solutions Ltd, Mumbai, draft a complaint letter to the Administration Head of Food for you Solutions, Mumbai, stating your concern about the bad quality of food being supplied to your company's cafeteria. **(5 Marks)**

4. (a) List at least 5 barriers of communication. Explain any two of them in your own words. (2)

- (b) (i) Select the suitable antonym for the given word:

Cyclical

- (a) Recurrent (b) Unidirectional (c) Appearing (d) Vehicular

(1 Mark)

- (ii) Rewrite the following sentences in passive voice

May God bless you with health and happiness.

(1 Mark)

- (iii) Change the following Direct speech into Indirect speech.

The Minister announced, 'Our party introduces the GST from tomorrow'.

(1 Mark)

- (c) Write an Article of about 350 words on the topic "**Growing health problems in the youth today**".

OR

Write a report for your school magazine, about a cultural fest held in your school last week. Mention the various schools that participated, the cultural programmes, the food stalls et al.

(5 Marks)

5. (a) Based on communication channels, what are the different kinds of communication methods? Explain. **(2 Marks)**

- (b) (i) Select the correct meaning of the idioms/phrases given below.

Food for thought

- (a) Incomplete information
(b) Good knowledge
(c) Uncensored words
(d) Baseless facts.

(1 Mark)

Sell like hotcakes

- (a) A difficult campaign
(b) Controversial marketing
(c) Good baker
(d) Fast selling / in huge number.

(1 Mark)

- (ii) Change the following Direct speech into Indirect speech.

The BCCI said, 'We wish the Under 19 cricket team for the its world cup win'

(1 Mark)

- (c) Submit an Action Taken Report, based on a meeting held to discuss the failure of long pending dues by an old client. Mention clearly what decision was taken.

OR

Prepare a chronological resume of commerce background student, having worked in a firm for 1 year, and gained experience in general management skills. The candidate has cleared IPCC, Group 1. **(5 Marks)**

FOUNDATION COURSE
MOCK TEST PAPER
PAPER 2: SECTION-B: BUSINESS CORRESPONDENCE AND REPORTING
ANSWERS

1. (a) **Passage - I**

- (1) Option b (2) Option c (3) Option b (4) Option d (5) Option a

Passage -II

- (1) Option d (2) Option d (3) Option b (4) Option b (5) Option c

(b) **Passage-I**

Ministry's Decision Revoked (Heading)

- (I) S. Korean steel maker Posco under attack
(II) Prpsl for steel plant in Odisha reconsidered
(III) Need to rethink the descn
(a) Not based on solid grounds
(b) FDI's
(c) Land aqstn from natives nt easy
(d) Protests frm land holders
(IV) No concrete result
(a) 8 years past; standstill
(b) Neither proponent nor govt. able to justify its moves
(c) Leaves the matter open ended.

Key Used:

- (1) S= south
(2) Prpsl= proposal
(3) Descn= decision
(4) Aqstn- acquisition
(5) Nt= not
(6) Frm= from
(7) Govt= government.
(8) FDI= foreign direct investment

Summary

The clearance issued to South Korean steel maker Posco is under discussion for not being comprehensive and cumulative. The main issue in this regard is the protest from the local villagers of Odisha where the plant is proposed to be set up. There seems to be no strong reason as to why the villagers should give away their land, which is the main source of livelihood. Posco's proposal of working on social commitments has also not been accepted in a positive stride.

(b) Passage –II

Playing of National anthem in movie halls (Heading)

- (I) The Court's order withdrawn
- (II) Court makes it optional; cannot have a mandate on the issue
- (III) Consequences
 - (a) Government intervenes; calls for a ministerial discussion
 - (b) Proposes a hold on the court's judicial rule
 - (c) Suggest changes in the Prevention of Insults and National Honour Act
- (IV) Justice Chandrachud suggests, no end to 'moral policing'
- (V) Consequences
 - (a) Violence amongst people.
 - (b) Harassment of public.
 - (c) Disrespect in the society.

Key Used:

- (1) Order= order
- (2) Withdrawn= withdrawn
- (3) Makes= makes
- (4) Cannot= cannot
- (5) Government= government
- (6) Changes= changes
- (7) National= national
- (8) Consequences= consequences
- (9) Amongst= amongst
- (10) People= people
- (11) Society= society

Summary

The Supreme Court's unfortunate order of playing the national anthem in movie halls before every screening has gained a lot of criticism. As a result, the order has been revoked with Justice D. Y. Chandrachud, one of the judges of the bench citing that patriotism need not be shown at every step in life. The court's order had been received with a pinch of salt and had led to unpleasant happenings and disturbance among the public.

2. (a) **Star Network:** has multiple channels of network in communication. This network allows a group communication and is useful especially where teamwork is involved. The members communicate and exchange information with each other freely, and without hindrance or hesitation. The usefulness of all networks depends on the structure and size of the company, and the manner of communication between the employees.
- (b) (i) a
(ii) d

- (iii) All books will be given to the orphans by Elizabeth.
- (iv) The master yelled at the servant to get lost and not show his face.

(c) Passage-I

One Tax for all: GST

Goods and Service Tax (GST) is a complete tax structure of an indirect form, levied on manufacturing and sale of goods and services. It aims to combine all taxes into one, thus reducing the burden of the consumer. GST unifies the market sector throughout the country with the aim to tax consumption and not production.

Passage-II

South Korea in deep trouble

South Korea having gained the status of a democracy is yet to settle issues like, corruption, political conflicts, lack of leadership and consensus and many more. The efforts made by the new leaders in the economic and social front have resulted in unexpected turns leading to more conflicts, distrust and erroneous policies. As a result, many loopholes have come into existence and hence made the civic organizations dominate the political institutions.

3. (a) **Chain of Command:** The communication pattern that follows the chain of command from the senior to the junior is called the chain network. Communication starts at the top, like from a CEO, and works its way down to the different levels of employees. It involves a lot of organizational hierarchy.
- (b) (i) b
(ii) a
(iii) Delicious desserts are prepared by my aunt.
(iv) Elders always say that if you work hard, you will succeed.

(c) Letter-1

XYZ Company

Chennai

Date: 10th Jan, 2018

Manager, Finance

Oil India Ltd

Chennai

Dear Sir/Ma'am

Sub: Enquiry for prices for bulk orders

This is regarding the requirement of oil, for our well known chips brand, Aunty Chips. We would like to enquire the rates for bulk order of refined oil, produced by your company.

We are an established brand in the FMCG sector, hence we feel the association would be mutually beneficial.

Kindly send the pricing details, also stating the mode of delivery.

Looking forward to your response.

Thanks and Regards,

Manager, Supply Chain Division
XYZ company

Letter-II

Manager Operations and Admin
Net Solutions
Mumbai
13th feb, 2018
Administration Head
Food for you Solutions
Mumbai

Dear Sir/Madam

Sub: Complaint against food quality

This with reference to the food supplied to our cafeteria by your company's kitchen. Unfortunately, for the past few weeks, we have observed a degradation in the quality of food items, especially rice, wheat flour and pulses.

A few of our employees complained of ill health after having consumed your food. I presume stale food is not being sent to us.

Kindly assure that the raw material you use is of high quality standards and is ISI approved.

I sincerely request you to look into this matter as it involves the health of people working for us, for which we are solely responsible.

Thanks and Regards,

Name

Manager, Ops and Admin
Net Solutions

4. (a) Barriers in communication:

- Physical Barriers
- Cultural Barriers
- Language Barriers
- Technology Barriers
- Emotional Barriers

Technology Barriers: Being a technology driven world, all communication is dependent on good and extensive use of technology. However, there might arise technical issues, like server crash, overload of information etc which lead to miscommunication or no communication at all.

Language Barriers: It's a cosmopolitan set up, where people of different nationalities move from their home to other countries for work. As a result, it is difficult to have a common language for communication. Hence, diversity gives rise to many languages and it acts as a barrier at times.

(b) (i) b

(ii) May you be blessed by God with health and happiness.

(iii) The Minister announced that their party would introduce GST from the next day.

(c) **Article Writing**

Hints:

- Causes of health issues: a crisp list
- Office work
- Lifestyle
- Eating habits
- Growing economy
- Money splurge
- Effects: direct effects
- Diseases
- Physical health issues
- Strain on eyes
- Young deaths

Report Writing

Hints:

- Have a good heading
- Mention the time, date, venue
- Divide the report into three paragraphs:
- What/When/Where/ Who was invited
- Purpose of the event (learn about the cultural diversity)
- Describe the event in details (name of schools that participated, the dances and other cultural programmes performed, the food stalls, the game stalls)
- Enthusiasm in the student community
- Conclude with an optimistic view.

5. (a) **Based on Communication channels, there are three kinds of categories:**

- Verbal: Verbal communication involves the use of words and language in delivering the intended message
- Non Verbal: Nonverbal communication is the process of communicating by sending and receiving wordless messages. These messages can aid verbal communication, convey

thoughts and feelings contrary to the spoken words or express ideas and emotions on their own.

- Visual: Visual communication through visual aids such as signs, typography, drawing, graphic design, illustration, colour and other electronic resources usually reinforces written communication. Visuals like graphs, pie charts and other diagrammatic presentations convey clearly and concisely a great deal of information. They are an essential part of official presentations these days.

(b) (i) b

(ii) d

(iii) The BCCI congratulated the U 19 cricket team for its World Cup win.

(c) Action Taken Report (ATR)

As per the meeting held on 12th Jan, 2018 at the Southern Region branch office of CP finance Ltd, following actions have been reported:

- The client had complied to clear the pending dues by 10th Jan, 2018.
- The client has asked for more time. Reason mentioned: losses incurred in business.
- On the basis of being an old client, with no such bad record, order passed to provide more time for payment.
- Expected payment till 31st January, 2018.

Undersigned

Director, Sales & Marketing

Director, Business

Chronological Resume

Name

Address

Phone Number

Email

OBJECTIVE: To be associated with an organisation that will offer to me tremendous opportunities for growth in career and provide a challenging environment that will utilise my accounting skills and abilities to the maximum.

SUMMARY:

- Have cleared IPCC, Group 1
- Have an years experience of working in an office
- Possess good management skills
- Can work under pressure situations
- Willingness to learn more is the driving factor.

EXPERIENCE:

2017 to present day

Junior Manager

Name the company, address

FOUNDATION COURSE
MOCK TEST PAPER
PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) **State** with reasons whether the following statements are **True or False**:
- (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
 - (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
 - (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
 - (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - (v) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.
 - (vi) Quick ratio is also known as Cash Ratio. **(6 statements x 2 Marks= 12 Marks)**
- (b) **Explain**, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(4 Marks)**
- (c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017
- (1) Balance as per cash book is ₹ 1,20,000.
 - (2) Cheques issued but not presented in the bank amounts to ₹ 68,000.
 - (3) Bank charges amounts to ₹ 300.
 - (4) Interest credited by bank amounts to ₹ 1,500. **(4 Marks)**
2. (a) **Prepare** a Petty Cash Book on the Imprest System from the following:

2017		₹	
April	1	Received ₹ 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500

"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

(b) M/s Kedar, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.
- (ii) M/s Kedar gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.
- (iv) In March, 2017 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2017.
- (v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017. **(10 Marks + 10 Marks = 20 Marks)**

- 3 (a) Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to **prepare** consignment account in the books of Manoj along with the necessary calculations. **(10 Marks)**

- (b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for ₹ 3,75,000 in favour of B, and on 4.7.2017, **the latter** purchased 200 sets each at a cost of ₹ 3,000 each. The sets were sent to A by lorry under freight "to pay" for ₹ 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sale price
16.7.2017	3	4,500	10%

31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to **prepare** in A's books:

- Joint Venture with B A/c; and
- Memorandum Joint Venture A/c.

(10 Marks)

4. From the following data, **prepare** an Income and Expenditure Account for the year ended 31st December 2017, and Balance Sheet as at that date of the Jeevan Hospital:

**Receipts and Payments Account for the
year ended 31 December, 2017**

RECEIPTS	₹		PAYMENTS		₹
To Balance b/d			By Salaries:		
Cash	800		(₹ 7,200 for 2016)		31,200
Bank	<u>5,200</u>	6,000	By Hospital Equipment		17,000
To Subscriptions:			By Furniture purchased		6,000
For 2016		5,100	By Additions to Building		50,000
For 2017		24,500	By Printing and Stationery		2,400
For 2018		2,400			
To Government Grant:			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(₹ 300 for 2018)		2,000
Fees from sundry			By Electricity and water		
Patients		4,800	charges		2,400
To Donations (not to be		8,000	By office expenses		2,000
capitalized)			By Investments		20,000
To Net collections from			By Balances:		
benefit shows		6,000	Cash	1,400	
		<u>1,56,800</u>	Bank	<u>6,800</u>	<u>8,200</u>
					<u>1,56,800</u>
Additional information :					₹
Value of building under construction as on 31.12.2017					1,40,000
Value of hospital equipment on 31.12.2017					51,000
Building Fund as on 1.1. 2017					80,000
Subscriptions in arrears as on 31.12.2016					6,500
Investments in 8% Govt. securities were made on 1st July, 2017.					

(20 Marks)

- 5 (a) The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	Assets		₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	<u>600</u>	8,400
		<u>33,100</u>			<u>33,100</u>

N died on 3rd January, 2018 and the following agreement was to be put into effect.

- (a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.
- (b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account
- (c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.
- (d) After death of N, L and M share profit equally.

You are required to prepare:

- (i) Journal Entry for Goodwill adjustment.
- (ii) Revaluation Account and Capital Accounts of the partners.

- (b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities		Assets		₹
Shareholder's Funds		1,12,500	Current Assets	1,50,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	<u>1,12,500</u>	<u>2,62,500</u>		<u> </u>
		<u>3,75,000</u>		<u>3,75,000</u>

Net sales	5,62,500
Interest Expense	6,000
Net Profit	39,375

On Dec 31st 2016, Total Assets were ₹3,00,000 and the tax rate is 40%.

You are required to **compute** the following ratios of Hari Ltd. as on Dec. 31st 2017.

- (i) Long Term Debt to Total Assets Ratio
- (ii) Net Profit Ratio
- (iii) Return on Average Total Assets
- (iv) Return on Equity
- (v) Net Sales to Total Assets.

(10 + 10 = 20 Marks)

6. (a) Mohan Ltd. invited applications for 15 lakhs shares of ₹ 100 each payable as follows :

	₹
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

(10 Marks)

- (b) Pihu Ltd. issued 300 lakh 8% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹ 50 on application and ₹ 44 on allotment.

You are required to **prepare** the necessary journal entries for issue of debentures. **(5 Marks)**

- (c) **Explain** the differences between:

Money measurement concept and Matching Concept

Or

Going concern and Cost concept.

(5 Marks)

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
- (ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.
- (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- (iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
- (v) False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
- (vi) False: Quick ratio is also known as Acid Test Ratio and not Cash Ratio.
- (b) The basic considerations in distinction between capital and revenue expenditures are:
- (i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

(c)

Pathak Ltd.

Bank Reconciliation Statement as on 31.3.2017

Particulars	₹
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	<u>1,500</u>
	1,89,500
Less : Bank charges	<u>(300)</u>
Balance as per pass book	<u>1,89,200</u>

2. (a)

PETTY CASH BOOK

Receipts ₹	Date 2017	V. No.	Particulars	Total ₹	Con- veyance ₹	Cartage ₹	Statio- nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April 1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b)

Profit and Loss Adjustment Account

	₹		₹
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to be taken as April sales)		By Samples	80,000
To Adjusted net profit	16,80,000	By Stock (Purchases of March not included in stock)	5,00,000
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	<u>19,60,000</u>		<u>19,60,000</u>

Calculation of value of inventory on 31st March, 2017

	₹
Stock on 31 st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	<u>1,50,000</u>
	<u>14,00,000</u>

3. (a)

Books of Manoj
Consignment to Jaipur Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = ₹ 18,750

Abnormal Loss as a percentage of total consignment = 10%.

Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = ₹ 18,750.

Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

Add: Proportionate expenses of Manoj (10 % of ₹ 15,000) = ₹ 1,500
₹ 16,500

3. **Calculation of closing Inventories (15%):**

Manoj's Basic Invoice price of consignment= ₹ 1,87,500

Manoj's expenses on consignment = ₹ 15,000

₹ 2,02,500

Value of closing Inventories = 15% of ₹ 2,02,500= ₹ 30,375

Loading in closing Inventories = ₹ 37,500 x 15/100= ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold = 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

= ₹ 14,062.5 + ₹ 2,343.75

= ₹ 16,406

(b)

A's Books**Joint Venture with B A/c**

2017	Particulars	Amount (₹)	2017	Particulars	Amount (₹)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		<u>7,65,300</u>			<u>7,65,300</u>

Memorandum Joint Venture A/c

Particulars		Amount (₹)	Particulars	Amount (₹)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ ₹ 4,050 net	1,21,500
To Profit :			80 sets @ ₹ 4,200 net	3,36,000
A	81,150		80 sets @ ₹ 3,847.5 net	3,07,800
B	81,150	1,62,300		
		<u>7,65,300</u>		<u>7,65,300</u>

4.

Jeevan Hospital**Income & Expenditure Account
for the year ended 31 December, 2017**

Expenditure	(₹)	Income	(₹)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	<u>16,000</u>		
	<u>64,100</u>		<u>64,100</u>

Balance Sheet as at 31st Dec., 2017

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	<u>50,000</u>	1,40,000

Over Expenditure	<u>16,000</u>	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	<u>17,000</u>	51,000
Add : Govt. Grant	<u>80,000</u>	1,60,000	Furniture		6,000
Subscriptions received in advance		2,400	Investments-		
			8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		<u>2,27,700</u>			<u>2,27,700</u>

Working Notes:

(1) Balance sheet as at 31st Dec., 2017

Liabilities	₹	Assets	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	<u>7,200</u>	Cash in hand	<u>800</u>
	<u>1,36,500</u>		<u>1,36,500</u>
(2) Value of Building			₹
Balance on 31st Dec. 2017			1,40,000
Paid during the year			<u>50,000</u>
Balance on 31st Dec. 2016			<u>90,000</u>
(3) Value of Equipment			
Balance on 31st Dec. 2017			51,000
Paid during the year			<u>(17,000)</u>
Balance on 31st Dec. 2016			<u>34,000</u>
(4) Subscription due for 2016			
Receivable on 31st Dec. 2016			6,500
Received in 2017			<u>5,100</u>
Still Receivable for 2016			<u>1,400</u>

5. (a) (i) Journal Entry in the books of the M/s LMN

Date	Particulars		Dr. ₹	Cr. ₹
Jan 3 2018	L's Capital A/c M's Capital A/c To N's Capital A/c (Being the required adjustment for goodwill through partner's capital accounts)	Dr. Dr.	1,000 1,000	2,000

(ii) Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

(b) Long Term Debt to Total assets = $\frac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1,12,500}{3,75,000}$$

$$= 1:3.33$$

(i) Net Profit Ratio = $\frac{\text{Net Profit} \times 100}{\text{Net Sales}}$

$$= \frac{39,375 \times 100}{5,62,500}$$

$$= 7\%$$

(ii) Return on Average Total Assets Ratio = $\frac{\text{Net Profit} + \text{Interest}(1-t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39,375 + 6,000(1-0.40) \times 100}{(3,00,000 + 3,75,000) / 2}$$

$$= \frac{42,975 \times 100}{3,37,500}$$

$$= 12.73\%$$

$$\begin{aligned}
 \text{(iii) Return on Equity} &= \frac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}} \\
 &= \frac{39,375 \times 100}{1,12,500} \\
 &= 35\%
 \end{aligned}$$

$$\begin{aligned}
 \text{(iv) Net Sales to Total Assets Ratio} &= \frac{\text{Net Profit}}{\text{Total Assets}} \\
 &= \frac{5,62,500}{3,37,500} \\
 &= 1.67: 1
 \end{aligned}$$

6. (a) **Journal of Mohan Ltd.**

2017			Dr. ₹ in lakhs	Cr. ₹ in lakhs
June 1	Bank A/c To Shares Application A/c (Receipt of applications for 15 lakh shares along with application money of ₹ 20 per share.)	Dr.	300	300
June 1	Share Application and Allotment A/c Share Allotment A/c To Share Capital A/c (The allotment of 15 lakh shares : payable on application ₹ 20 share and ₹ 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	300 450	750
June 1	Bank A/c To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ ₹ 30, also the two calls (₹ 30 and ₹ 20) on 30,000 shares.]	Dr.	465	450 15
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 15 lakh shares @ ₹ 30 on first call, as per Directors, resolution no... dated...)	Dr.	450	450
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	441 9	450
2018 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 15 lakh shares @ ₹ 20 per share, as per Directors' resolution no... dated...)	Dr.	300	300

March 1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)	Dr. Dr.	294 6	300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	0.99
Feb 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	0.99

Working Note:

The interest on calls in advance paid @ 12% on :	₹
₹ 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months	45,000
₹ 6,00,000 (final call) from 1st June to 1st March., 2018–9 months	54,000
Total Interest Amount Due	99,000

(b)

Books of Pihu Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Amount (₹' Lakhs)	Credit Amount (₹' Lakhs)
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	15,000	15,000
	Debenture Application A/c To 8% Debentures A/c (Application money transferred to 8% debentures account)	Dr.	15,000	15,000
	Debenture Allotment A/c Loss on issue of debenture A/c To 8% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr. Dr.	13,200 3,300	15,000 1,500
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	13,200	13,200

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

$$\begin{aligned}
&= (6\% \text{ of } ₹100 + 5\% \text{ of } ₹100) \times 300 \text{ lakh} \\
&= (₹ 6 + ₹ 5) \times 300 \text{ lakh} \\
&= ₹ 3,300 \text{ lakh}
\end{aligned}$$

(c) Difference between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Or

Difference between Going Concern Concept and Cost Concept

Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept

By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying ₹ 5,00,000, following cost concept the value of the machine is taken as ₹ 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

**FOUNDATION COURSE
MOCK TEST PAPER
PAPER – 4: PART I : BUSINESS ECONOMICS**

Max. Marks : 60

QUESTIONS

1. 'Economics is a Science which deals with wealth' was referred by
 - (a) Alfred Marshal
 - (b) J.B. Say
 - (c) Adam Smith
 - (d) A.C. Pigou.
2. Exploitation and inequality are minimal under:
 - (a) Socialism
 - (b) Capitalism
 - (c) Mixed economy
 - (d) None of the above
3. Which of the following is a cause of an economic problem?
 - (a) Scarcity of Resources
 - (b) Unlimited wants
 - (c) Alternative uses
 - (d) All of the above.
4. The law of Scarcity
 - (a) Does not apply to rich, developed countries
 - (b) Does not apply to poor, under developed countries
 - (c) Implies only to socialist economies
 - (d) Implies that all consumer wants will never be completely satisfied.
5. Which of the following is not within the Scope of Business Economics?
 - (a) Capital Budgeting
 - (b) Accounting Standards
 - (c) Business Cycles
 - (d) Risk Analysis

6. In a perfectly competitive firm, MC curve above AVC is the _____ Curve of the firm
- (a) Average cost
 - (b) Marginal revenue
 - (c) Demand
 - (d) Supply
7. In the long run, normal profits are included in the _____ curve.
- (a) LAC
 - (b) LMC
 - (c) AFC
 - (d) SAC
8. Which is not the assumption of Indifference curve Analysis?
- (a) The consumer is rational and possesses full information about all the aspects of economic environment
 - (b) The consumer is not capable of ranking all combinations
 - (c) If consumer prefers combination A to B and B to C, then he must prefer combination A to C
 - (d) If combination A has more commodities than combination B, then A must be preferred to B.
9. Indicate which of the following is a variable cost?
- (a) Payment of rent on building
 - (b) Cost of Machinery
 - (c) Interest payment on Loan taken from bank
 - (d) Cost of raw material
10. In case of necessities the marginal utilities of the earlier units are large. In such cases the consumer surplus will be:
- (a) Infinite
 - (b) zero
 - (c) Marginally positive
 - (d) Marginally Negative
11. Price discrimination is not possible
- (a) Under Monopoly
 - (b) Under Monopolistic competition
 - (c) Under perfect competition
 - (d) Under any market firm

12. Calculate Income-elasticity for a household when the income of this household rises by 5% and the demand for buttons does not change at all.
- (a) Infinity
 - (b) 1
 - (c) 5
 - (d) Zero
13. If the goods are perfect substitutes for each other then cross elasticity is
- (a) Infinite
 - (b) One
 - (c) Zero
 - (d) None of the above
14. A firm encounters its shut down point when:
- (a) Average total cost equals price at the profit maximizing level of output
 - (b) Average variable cost equals price at the profit maximizing level of output
 - (c) Average fixed cost equals price at the profit maximizing level of output
 - (d) Marginal cost equals price at the profit maximizing level of output
15. In which form of the market structure is the degree of control over the price of its product by a firm is very large?
- (a) Imperfect competition
 - (b) Monopoly
 - (c) Oligopoly
 - (d) Perfect competition
16. Which of the following means an Economic activity?
- (a) Production of Goods
 - (b) Production of services
 - (c) Consumption of Goods and Services
 - (d) All of the above
17. The income of a household rises by 20 per cent, the demand for computer rises by 50%, this means computer is a/an:
- (a) Inferior good
 - (b) Luxury good
 - (c) Necessity
 - (d) None of the above

18. The marginal product of a variable input is best described as:
- (a) Total product divided by the number of units of variable input
 - (b) The additional output resulting from a one unit increase in the variable input
 - (c) The additional output resulting from a one unit increase in both the variable and fixed inputs
 - (d) None of the above
19. When we study why saving rates are high or low, we are studying :
- (a) Macro Economics
 - (b) Micro Economics
 - (c) Econometrics
 - (d) Both (a) and (b)
20. Which of the following statements is false with respect to Business Cycles:
- (a) They occur periodically.
 - (b) They generally originate in free market economies.
 - (c) They are international in character.
 - (d) They do not affect capitalist economies.
21. If the price of Banana rises from ₹ 30 per dozen to ₹ 40 per dozen and the supply increases from 240 dozen to 300 dozens elasticity of supply is: (use arc elasticity Method)
- (a) .7
 - (b) -.67
 - (c) .65
 - (d) .77
22. If as a result of 90 per cent increase in all inputs, the output increase by 75 per cent this is a case of
- (a) Increasing return of a factor
 - (b) Decreasing return of a factor
 - (c) Diminishing returns to scale
 - (d) None of the above
23. If distribution of income is more equal, then the propensity to consumer of the country is
- (a) Relatively High
 - (b) Relatively Low
 - (c) Unaffected
 - (d) None of the above

24. During 1920s, UK saw rapid growth in GDP, production levels and living standards. The economic growth also caused an unprecedented rise in stock market values. This is an example of:
- Boom
 - Recession
 - Contraction
 - Trough
25. If demand for a good is elastic, an increase in its price will cause total expenditure of the consumer of the good to:
- Increase
 - Decrease
 - Remain the same
 - None of the above
26. If a good is priced at ₹ 180 p.u. and its price is increased to ₹ 240 p.u. Now suppose quantity demanded previously was 100 units and as a result of price increase, the quantity demanded fell to 80 units. What is the price elasticity? (use Mid Point method)
- .777
 - 1.4
 - 1
 - .8

Use the following table to answer questions 27-28

Hour of labour	Total output	Marginal Product
0	0	0
1	300	300
2	-	240
3	720	-

27. What is the total output when 2 hours of labour are employed?
- 160
 - 200
 - 360
 - 540
28. What is the marginal product of the third hour of labour?
- 120
 - 160
 - 200

- (d) 180
29. Which of the following statements is false?
- (a) An indifference curve is concave to the origin
 - (b) An indifference curve is convex to the origin
 - (c) A higher indifference curve is better than a lower indifference curve
 - (d) An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.
30. Identify the factor which generally keeps the price-elasticity of a demand for a good high.
- (a) Its very high price
 - (b) Its very low price
 - (c) Large number of substitutes
 - (d) None of the above
31. Assume that when price is ₹ 40 quantity demanded is 9 units, and when price is ₹ 38, quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units
- (a) ₹ 20
 - (b) ₹ 40
 - (c) ₹ 38
 - (d) ₹ 1
32. Suppose that an owner is earning total revenue of ₹ 1,00,000 and is incurring explicit cost of ₹ 60,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that:
- (a) The firm is earning economic profit of ₹ 10,000
 - (b) The firm is earning accounting profit of ₹ 40,000
 - (c) The firm is earning economic profit of ₹ 40,000
 - (d) Both (a) and (b)
33. A monopolist is able to maximize his profit when:
- (a) His output is maximum
 - (b) He charges a higher price
 - (c) His average cost is minimum
 - (d) His marginal cost is equal to marginal revenue
34. Law of diminishing marginal utility may not apply to:
- (a) Money
 - (b) Butter
 - (c) Pepsi, Coke etc.
 - (d) Ice cream

35. If the local-cream shop raises the price of a ice cream cup from ₹ 10 per cup to ₹ 15 per cup, and quantity demanded falls from 500 cups per day to 300 cups per day, the price elasticity of demand for ice-cream cup is: (use arc elasticity Method)
- (a) 1
 - (b) 2.5
 - (c) 2
 - (d) 1.25
36. Suppose the short run cost function can be written as $TC = 250 + 10Q$. Average Fixed cost equals:
- (a) $250/Q$
 - (b) 250
 - (c) 10
 - (d) $250/Q+10$
37. Gopal inherited 1 acre of land from his father in 1960. Today the value of that land is ₹ 90 lakh per acre. What is the opportunity cost of Gopal for keeping that land? His father paid ₹ 50,000 for this land.
- (a) Nothing, since the land was inherited
 - (b) ₹ 50,000 which his father paid
 - (c) ₹ 90 lakh, since the amount Gopal is getting now if he sells it
 - (d) Both (b) and (c)
38. Suraj is a high school senior thinking about becoming an economic research assistant, Shyam just graduated from college with an economic degree and is looking for a job as an economic research assistant. For whom is the college tuition an opportunity cost?
- (a) Suraj
 - (b) Shyam
 - (c) Both Suraj and Shyam
 - (d) Neither Suraj nor Shyam
39. Kinked demand curve in oligopoly market explains:
- (a) Price and output determination
 - (b) Existence of very few firms in the market
 - (c) Price rigidity
 - (d) Price leadership
40. Shares traded in the stock market depict characteristics close to _____.
- (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopolistic Competition
 - (d) Monopoly

41. Consider the following and decide which, if any, economy is without scarcity:
- (a) The pre-independence Indian economy, where most people were farmers.
 - (b) A mythical economy where everybody is a billionaire.
 - (c) Any economy where income is distributed equally among its people.
 - (d) None of the above.
42. When the price of a substitute of X commodity falls, the demand for X _____.
- (a) Rises
 - (b) Falls
 - (c) Remains unchanged
 - (d) Any of the above.
43. At the point of inflexion, the marginal product is
- (a) Increasing
 - (b) Decreasing
 - (c) Maximum
 - (d) Negative
44. Who expressed the view that fluctuations in investments are the prime cause of business cycles?
- (a) Hawtrey
 - (b) Pigou
 - (c) Schumpeter
 - (d) Keynes
45. When _____, we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency
- (a) $AC = AR$
 - (b) $MC = AC$
 - (c) $MC = MR$
 - (d) $AR = MR$
46. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) Large fall in quantity demanded
 - (b) large fall in demand
 - (c) small fall in quantity demanded
 - (d) small fall in demand

47. According to Schumpeter
- (a) Trade cycle is purely monetary phenomenon.
 - (b) Trade cycles occur as a result of innovations which take place in system.
 - (c) Trade cycles result due to faulty business decisions of USA.
 - (d) None of the above.
48. When the perfectly competitive firm and industry are in long run equilibrium then:
- (a) $P = MR = SAC = LAC$
 - (b) $D = MR = SMC = LMC$
 - (c) $P = MR =$ Lowest point on the LAC curve
 - (d) All of the above
49. Giffen goods are those goods
- (a) For which demand increases as price increases
 - (b) That have a high income elasticity of demand
 - (c) That are in short supply
 - (d) None of these
50. In the long run any firm will eventually leave the industry if:
- (a) Price does not at least over average total cost.
 - (b) Price does not equal marginal cost.
 - (c) Economies of scale are being reaped.
 - (d) Price is greater than long run average cost.
51. You are given the following data:

Table

Output	Total Costs
0	0
1	15
2	30
3	45
4	60
5	75

The above data is an example of:

- (a) Constant returns to scale.
- (b) Decreasing returns to scale
- (c) Increasing returns to scale
- (d) Globalization

The following Table provides cost and price information for a firm called Comfy Cushions (CC). The firm produces and sells cushions using a fixed amount of capital equipment but can change the level of inputs such a labour and materials. Read the Table and answer questions 52-58

Production (Q)	Price per unit (P)	Total Cost (TC)	Average Total Cost (ATC)	Marginal Cost (MC)	Total Revenue (TR)	Marginal Revenue (per unit) (MR)
0	250	500				
1	240	730				
2	230	870				
3	220	950				
4	210	1010				
5	200	1090				
6	190	1230				
7	180	1470				
8	170	1850				
9	160	2410				

52. What is the value of fixed cost incurred by CC?
- (a) ₹ 252
 (b) ₹ 730
 (c) ₹ 500
 (d) cannot be determined
53. What is the average total cost when 5 units are produced?
- (a) ₹ 218
 (b) ₹ 1090
 (c) ₹ 730
 (d) ₹ 210
54. What is the marginal revenue (per unit) when production increase from 7 units to 8 units?
- (a) 160
 (b) 140
 (c) 120
 (d) 100
55. What is the marginal cost when production increase from 3 to 4 units?
- (a) 140
 (b) 80
 (c) 60
 (d) 240

56. To maximize its profit or minimize its loss, what level of production should CC choose?
- (a) 7 units
 - (b) 6 units
 - (c) 4 units
 - (d) 8 units
57. At the profit maximizing level, what price should be charged?
- (a) ₹ 190
 - (b) ₹ 200
 - (c) ₹ 210
 - (d) ₹ 220
58. Calculate CC's maximum profit or minimum loss.
- (a) Loss of ₹ 100
 - (b) Loss of ₹ 60
 - (c) Profit of ₹ 90
 - (d) Loss of ₹ 90
59. A significant decline in general economic activity extending over a period of time is _____
- (a) Business cycle
 - (b) Contraction phase
 - (c) Recession
 - (d) Recovery
60. Economic recession shares all of these features except :
- (a) Fall in the level of investment, employment
 - (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
 - (c) Investor confidence is adversely affected and new investments may not be forth coming
 - (d) Increase in the price of inputs due to increase in demand for inputs.

FOUNDATION COURSE
MOCK TEST PAPER
PAPER – 4: PART I : BUSINESS ECONOMICS

ANSWERS

1	b	16	d	31	a	46	a
2	a	17	b	32	d	47	b
3	d	18	b	33	d	48	d
4	d	19	a	34	a	49	a
5	b	20	d	35	d	50	a
6	d	21	d	36	a	51	a
7	a	22	c	37	c	52	c
8	b	23	a	38	a	53	a
9	d	24	a	39	c	54	d
10	a	25	b	40	a	55	c
11	c	26	a	41	d	56	b
12	d	27	d	42	b	57	a
13	a	28	d	43	c	58	d
14	b	29	a	44	d	59	c
15	b	30	c	45	b	60	d

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MOCK TEST PAPER
PAPER – 4 PART II: BUSINESS AND COMMERCIAL KNOWLEDGE
QUESTIONS

Max. Marks: 40

1. Which of the following statements distinguishes business from entrepreneurship?
 - (a) Entrepreneurs are the business owners too
 - (b) All business owners are entrepreneurs too
 - (c) Entrepreneurs seek out new opportunities and pursue innovative business ideas
 - (d) (a) and (b)
2. Business and technology are:
 - (a) Interrelated
 - (b) Interdependent
 - (c) Interrelated & Interdependent
 - (d) None of the above
3. Which pharmaceutical company has the slogan 'caring for life'?
 - (a) Dr. Reddy's
 - (b) Lupin Ltd.
 - (c) Cipla Ltd.
 - (d) Sun Pharmaceutical Industries Ltd.
4. Public policies are of three types:
 - (a) Restrictive, Regulatory, Participative
 - (b) Restrictive, Regulatory, Facilitating
 - (c) Voluntarily, Participative, Facilitating
 - (d) Regulatory, Voluntarily, Continuous
5. How many members of SEBI should be from RBI?
 - (a) 4
 - (b) 3
 - (c) 1
 - (d) 2
6. A portion of the after-tax profits paid out to the owners of a business as a return on their investment is:
 - (a) Dividend
 - (b) Expense
 - (c) Expenditure
 - (d) Deferred income

7. Which of the following statements does not comprise business activity?
 - (a) Sale of old furniture by a household for a profit
 - (b) A carpenter made furniture for his domestic use
 - (c) Steel furniture industry
 - (d) Domestic appliances industry
8. Which of the following is not a part of the economic environment?
 - (a) Market and trade cycles
 - (b) Consumer buying patterns
 - (c) Strength of consumer spending
 - (d) Interest and exchange rates
9. State Bank of India was formerly known as:
 - (a) Bank of Madras
 - (b) Bank of Calcutta
 - (c) Imperial Bank
 - (d) Indian Bank
10. OCBs mean
 - (a) Overseas Corporate Bodies
 - (b) Ordnance Commission Bilateral secretariat
 - (c) Oversees Civic Boards
 - (d) Oversees Commercial Bilateral Treaties
11. What is the constitution of Competition Commission of India?
 - (a) A chairperson and 6 members appointed by the Central Government
 - (b) A chairperson and 5 members appointed by the Central Government
 - (c) A chairperson and 5 members appointed by the RBI
 - (d) A chairperson and 6 members appointed by the RBI
12. What is meant by B2B?
 - (a) Buying behaviour that concerns the process that buyers go through when deciding whether or not to purchase goods or services.
 - (b) A company's business model is management's storyline for how the strategy will be a money maker.
 - (c) Marketing activity directed from one business to another.
 - (d) None of the above
13. The Indian Companies Act, 2013 provides for the registration of:
 - (a) Private Limited and Public Limited Company
 - (b) One Person Company and Small Company
 - (c) Defunct Company

- (d) All of the above
14. The businesses should continuously _____ and _____ to the environment if it is to service and prosper.
- (a) Identify, appraise
 - (b) Monitor, adapt
 - (c) Identify, monitor
 - (d) Monitor, appraise
15. Who founded Wipro Limited?
- (a) Azim Premji
 - (b) Mohamed Premji
 - (c) Ratan Tata
 - (d) Narayan Murthy
16. Reforms in Dowry Act and Divorce Act are the examples of:
- (a) Economic Reforms
 - (b) Cultural Reforms
 - (c) Commercial Reforms
 - (d) Socio-cultural Reforms
17. Since when has IFCI been converted into a private limited company?
- (a) 1991
 - (b) 1992
 - (c) 1993
 - (d) 1994
18. 'Personal selling' is done through:
- (a) Written communication
 - (b) Oral communication
 - (c) TV and media
 - (d) Sign language
19. A partnership may not be formed to carry on:
- (a) Any trade
 - (b) Occupation
 - (c) Profession
 - (d) Social enterprise
20. Relationship between organisation and environment can be described through:
- (a) Exchange of information
 - (b) Exchange of resources

- (c) Exchange of influence and power
 - (d) All of the above
21. American Express was ranked the 17th most admired company by Fortune in which year?
- (a) 2014
 - (b) 2015
 - (c) 2016
 - (d) 2017
22. The form of privatization, where government keeps hold of responsibility and private enterprise handles the management of it fully or partly is known as:
- (a) Disinvestment
 - (b) Deregulation
 - (c) Delegation
 - (d) Decentralization
23. Where is the head office of NABARD?
- (a) Mumbai
 - (b) Delhi
 - (c) Gurugram
 - (d) Bengaluru
24. What is a bull market?
- (a) A market in which the stock prices are increasing consistently.
 - (b) A market in which the stock prices are decreasing consistently.
 - (c) A market in which the stock prices are stable over a long time.
 - (d) None of the above
25. The maximum number of members of a private company is limited to
- (a) 50
 - (b) 20
 - (c) 100
 - (d) 200
26. The performance of business in the private sector is measured by:
- (a) Profitability
 - (b) Customer Satisfaction
 - (c) No of employees
 - (d) The salary of Managing Director
27. Who was the founder of Walmart?
- (a) Sam Walton

- (b) Bret Biggs
 - (c) Greg Penner
 - (d) Luca Maestri
28. FIPB stands for:
- (a) Foreign Institutional Promotion Board
 - (b) Foreign Institutional Preparatory Board
 - (c) Foreign Investment Priority Board
 - (d) Foreign Investment Promotion Board
29. Which one of the following is an Indian Regulatory Body that facilitates business organizations?
- (a) EXIM Bank
 - (b) NABARD
 - (c) IRDA
 - (d) IFCI
30. _____ is the measure of return on investments in terms of percentage
- (a) Yield
 - (b) Index
 - (c) Equity
 - (d) Bonus
31. A HUF cannot comprise members of a:
- (a) Hindu & Sikh family
 - (b) Parsi family
 - (c) Buddhist family
 - (d) Muslim family
32. The term PESTLE analysis is used to describe a framework for analyzing:
- (a) Macro Environment
 - (b) Micro Environment
 - (c) Both Macro and Micro Environment
 - (d) None of above
33. Indane LPG is the product of which corporation in India?
- (a) IOCL
 - (b) NTPC
 - (c) ONGC
 - (d) PGCIL
34. Simplification of trade restrictions related to import is an example of:
- (a) Globalization

- (b) Privatization
 - (c) Disinvestment
 - (d) Aggregation
35. The RBI has been vested with extensive power to control and supervise commercial banking system under the-
- (a) Reserve Bank of India Act, 1934
 - (b) The Banking Regulation Act, 1949
 - (c) Both (a) and (b)
 - (d) The Companies Act, 2013
36. _____ is a strategy that is used to minimize the risk of a particular investment and maximize the returns of an investment.
- (a) Cap
 - (b) Encryption
 - (c) Hedge
 - (d) Term insurance
37. All are elements of macro environment except:
- (a) Society
 - (b) Government
 - (c) Competitors
 - (d) Technology
38. Where are the headquarters of L&T?
- (a) Bengaluru
 - (b) Delhi
 - (c) Mumbai
 - (d) Chennai
39. Hyundai India Limited came to India through the FDI route. It followed the path of:
- (a) Divestment in Public Sector Unit
 - (b) Joint Venture
 - (c) By creating a 100% Indian subsidiary
 - (d) Replacement of a government sector business
40. _____ is a technology where the banking organizations resort to the use of electronics, computers and other networks to execute transactions and transfer funds.
- (a) E-cash
 - (b) Digi-cash
 - (c) Hedge
 - (d) Cap

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 4 PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

ANSWERS

1	2	3	4	5	6	7	8	9	10
(c)	(c)	(c)	(b)	(c)	(a)	(b)	(b)	(c)	(a)
11	12	13	14	15	16	17	18	19	20
(a)	(c)	(d)	(b)	(b)	(d)	(c)	(b)	(d)	(d)
21	22	23	24	25	26	27	28	29	30
(d)	(c)	(a)	(a)	(d)	(b)	(a)	(d)	(c)	(a)
31	32	33	34	35	36	37	38	39	40
(d)	(a)	(a)	(a)	(c)	(c)	(c)	(c)	(c)	(a)